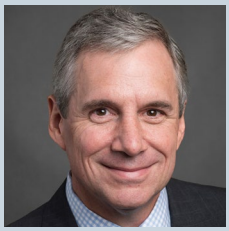
May 31, 2022

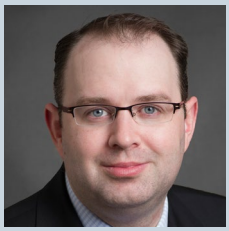
Value Investor INSIGHT

The Leading Authority on Value Investing

Collective Effort



John Linehan



Ryan Hedrick

Vincent DeAugustino

Gabriel Solomon

While it lacks the profile of a BlackRock or the cachet of a Blackstone, T. Rowe Price Group over time has built a peerless reputation as a fundamental money manager. Morningstar in its latest report on the company summarizes why: "T. Rowe Price is the best positioned of the U.S.-based active asset managers we cover. The biggest differentiators for the firm are the size and scale of its operations, the strength of its brands, its consistent record of active fund outperformance, and reasonable fees."

In an effort to tap into the firm's formidable collective investing wisdom, we spoke with four of its equity portfolio managers about how they're navigating today's turbulent market. The byword is caution, but they see select opportunity in such areas as semiconductor capital equipment, financial technology, public utilities and banking. See page 2

Bottoms Up

For many years, bigger and more expensive won out when it came to stocks. Ryan Batchelor makes the case that smaller and cheaper is the better way to go today.

INVESTOR INSIGHT

Ryan Batchelor
Clifford Capital Partners

Investment Focus: Seeks highly attractive businesses whose stocks trade at decent prices and decent businesses whose stocks trade at highly attractive prices.

Ryan Batchelor since founding Clifford Capital Partners in 2010 has targeted wide-moat companies that are temporarily out of favor as well as what he considers opportunistic deep-value ideas that are just too cheap to pass up. "We think the return streams are complementary," he says. "It's on us to take the weights in each up and down depending on what the market is giving us."

He's proven nimble so far. Clifford's all-cap strategy has handily beaten its benchmark, earning a net annualized 14.1%, vs. 11.5% for the Russell 3000 Value Index. He says quality today is still relatively dear, but he's finding opportunity in all shapes and sizes and in such areas as discount retail, point-of-sale systems, charge cards, regional banks and shipping services. See page 11

Inside this Issue

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INVESTMENT HIGHLIGHTS

Other companies in this issue:
AbbVie, Anthem, Carvana, CDK Global, Cummins, GameStop, General Electric, Int'l Flavors & Fragrances, Qualcomm, RenaissanceRe, Select Medical, Southern Co., Volkswagen, WW International

Collective Effort

T. Rowe Price portfolio managers John Linehan, Ryan Hedrick, Vincent DeAugustino and Gabriel Solomon describe what in their eyes sets their firm apart, the many ways in which the investment opportunity set has changed in recent months, and why they believe there's particular contrarian upside today in Wells Fargo, KLA Corp., PG&E and Fiserv.

INVESTOR INSIGHT

John Linehan

"I'm trying to take the macro out of the equation and have both strong offensive and defensive teams on the field."

T. Rowe Price is a big firm with equity portfolio managers pursuing a wide variety of strategies. Despite that diversity, would you say there are any key commonalities in approach?

John Linehan: To some extent what makes the firm successful is that I can't really answer that question. There is no quintessential T. Rowe Price stock or T. Rowe Price "way." We try to hire talented individuals who we think over time can be excellent investors, assign them to industries where they can become experts, and then give them the freedom to determine from an investment perspective what's really important in their industry. We have worked hard to create a meritocratic environment where people are assessed and compensated on the quality of the recommendations they provide.

A critical driver of our long-term success is that there are a lot of differing opinions expressed by investment professionals who look at things very differently, and we have a culture built around collaboration. It's also important that we all draw on a centralized research platform. Many organizations structure themselves around siloed pods, say large cap and small cap or value and growth. That sounds fine in theory, but that's not how companies and industries operate and we don't think we should structure our analyst coverage that way either. We're drawing on an ecosystem focused on finding the right stocks, where there's a respectful and productive discourse between and among analysts and portfolio managers in terms of framing the investment landscape. We hope that elevates the quality of decisions made by all those involved in it.

On what have you personally come to focus in finding the "right" stocks?

JL: There are three basic pillars to my investment philosophy. The first would be valuation – the price paid for a security is critically important to its longer-term performance as an investment. Empirical studies show that the longer the time horizon, the more valuation matters as a performance driver.

The second pillar revolves around having a long time horizon, which primarily means investing with an owner's mindset. Owners focus on the prospects of the business over time and we should do exactly the same thing – especially given that we think it gives us a competitive advantage over investors who don't do that. On average the holding period for stocks in the strategies I manage is four to six years.

The last basic pillar is a focus on fundamentals. Across our strategies we believe that if we know our companies better than others in the marketplace, that knowledge should translate into unique insight and a differentiated and positive portfolio construction process. People ask about an investor's "edge" – for us, it comes down to the fundamental research work put in every day to gain that insight.

So I'm trying to find ideas where there is a true balance of valuation and fundamental appeal. Valuation matters, but it's not sufficient. Fundamentals matter, but they're not sufficient either. Our sweet spot is in stocks with fundamental appeal trading at what we consider opportunistic valuations, often because the sentiment around them is misplaced or temporal.

How target-rich do you consider the opportunity set for such stocks today?

JL: The level of uncertainty in the market right now is really pronounced. If I think about the range of potential outcomes over the next year, it's probably as wide as it's been over the last 20 years. Just putting idiosyncratic company fundamentals up against the potential impacts of inflation and the government response to it would give you a fairly volatile range of outcomes. On top of that you've got the Russian invasion of Ukraine and the ongoing effects of Covid in China and elsewhere. There's a lot going on – and I don't claim unique insight on many of these fronts.

There are people who will end up doing very well in this market because they're taking a significant macro tilt. My hat's off to them. I'm more trying to take the macro out of the equation and optimize our holdings so we have both strong offensive and defensive teams on the field. On offense, we have companies positively exposed to an improving economy where we believe the rewards significantly outweigh the risks. On defense, it isn't as much about maximizing reward over risk, but more about protection on the downside. In all cases, of course, we're looking for companies with positive idiosyncratic elements to the story as well.

Where does General Electric [GE] fit in this context?

JL: Given the pro-cyclicality of its power and aviation businesses, GE is more of an offensive name, with an added kicker in our view from the potential for improved profitability across the board under CEO

Larry Culp. We have tremendous respect for him and the job he did at Danaher in relentlessly improving the company operationally. We don't see much upside built into market expectations from him doing something similar at GE.

I would add that this investment also has an important defensive component. GE has announced that it's going to split into three pieces, and our sum-of-the-parts analysis around that gives us a share price well north of today's level [of around $79]. Many investors have the mindset with GE to wait for six months when there's more visibility into the business and the split. But that's not price determinant – at times like these, we believe with a little less visibility we can get a much better discount. When you see little downside and significant upside, that gets us very interested.

Volkswagen [Frankfurt: VOW] would be another example where we think the longer the time horizon you have, the more intriguing the opportunity. My crystal ball is cracked in terms of predicting the health of the global auto industry in the coming year, but with VW's stock [at today's €205] trading on consensus numbers at a 6x P/E, the valuation indicates that expectations are not very high. We'd make the case that the company is better positioned to benefit from the secular shift toward electric vehicles over time than the market seems to believe. The "diesel-gate controversy" [where the company was found to have chronically misrepresented the emissions-control standards of its cars] forced it to fundamentally rethink its strategy and resulted in a more than $7 billion investment program to build out its EV platform, the fruits of which are now coming to market. Tesla is not going to sell every electric car in the world going forward. We think VW will prove to be a real competitor in electric vehicles and the market is not pricing that eventuality into the current stock price.

The defensive aspect here is also important. VW does have a minority government shareholder that is probably more focused on employment than profitability, but we're encouraged by the fact that the board has indicated a willingness to realize value by selling off part of its Porsche division in an IPO. With significant value in VW-owned brands like Porsche, Audi, Lamborghini and Bentley, there's a very reasonable sum-of-the-parts argument for the stock today as well. We think that provides a great deal of protection on the downside.

Wells Fargo [WFC] is among the largest holdings in the strategies you manage. Why is it a timely idea today?

JL: One common type of opportunity for us is when a good-quality company is undergoing controversy that we think is correctable in the intermediate to longer term. Wells Fargo would be an excellent example of that. The company for some time probably over-earned its business model, as a result of a number of business practices that simply weren't right. In cases like this there is a lot of heavy lifting necessary to reconstruct and remediate and it often takes a lot longer than people expect. The market often gets impatient with the level of progress being made, and that's certainly been the case here.

An important element in our research has been to determine how much tangible

INVESTMENT SNAPSHOT

Wells Fargo
(NYSE: WFC)

Business: U.S. bank holding company operating in four primary segments: consumer banking, commercial banking, corporate and investment banking, and wealth management.

Share Information (@5/27/22):

Price	**45.89**
52-Week Range	40.73 – 60.30
Dividend Yield	2.2%
Market Cap	$173.94 billion

Financials (TTM):

Revenue	$81.75 billion
Operating Profit Margin	34.3%
Net Profit Margin	25.2%

Valuation Metrics
(@5/27/22):

	WFC	S&P 500
P/E (TTM)	9.5	21.1
Forward P/E (Est.)	8.8	17.6

Largest Institutional Owners
(@3/31/2022 or latest filing):

Company	% Owned
Vanguard Group	8.1%
BlackRock	4.5%
Fidelity Mgmt & Research	3.7%
Dodge & Cox	3.2%
T. Rowe Price	1.9%

Short Interest (as of 5/15/22):

Shares Short/Float	1.0%

WFC PRICE HISTORY

THE BOTTOM LINE

The market is impatient with how long it's taking the company to restore its brand reputation, but John Linehan believes its market position, scale and earnings power suggest patience is still warranted. He argues that improved returns on equity and assets combined with an even peer-level valuation would result in significant upside for the share price.

Sources: Company reports, other publicly available information

damage has been done to the core Wells Fargo brand. There are some dents in it, but we believe the brand reputation has stabilized and that from an image standpoint with customers, regulators and investors there's more upside than downside. That's important, and is a credit to the work Charlie Scharf has done since taking over as CEO in the last quarter of 2019. He's focused very much on rebuilding regulatory relationships and the company's culture. While there's still work to do, we think he's accomplished a lot on both fronts.

Is banking an attractive industry?

JL: We're not arguing that the setup for the banking industry, per se, is a tremendous tailwind for Wells, but we do believe some key industry trends are likely to work in its favor. The minimum efficient scale in banking has clearly gone up as technology plays an ever more important role. In lending and in funding the companies with the best scale and that can invest what it takes in technology have a competitive advantage over smaller, less-efficient players. That should work to Wells' advantage, particularly if the industry – as we expect – increasingly consolidates.

We also don't believe the market fully appreciates the company's earnings power. It doesn't have the same volatile capital-markets and international exposure that other large U.S. banks do, and as the regulatory caps and consent decrees impacting it eventually come off, it should have more flexibility in putting the balance sheet to work in generating higher returns. That may be delayed if the economy hits a rough patch, but given the soundness of the balance sheet the earnings power should remain intact.

How confident are you that the regulatory shackles come off?

JL: Wells has become somewhat of a poster child for the excesses of the banking system, so unfortunately there are political as well as regulatory aspects to how that all plays out. We're confident they're doing the right things, but less confident in predicting when the regulatory constraints lessen. The market is impatient with that – we think patience is still warranted and, in the end, will be rewarded.

We haven't yet spoken about interest rates. Are they a key part of your thesis?

JL: Interest rates going up should be a clear positive for Wells, increasing net interest income and net interest margin. How positive that impact is overall will depend on the health of the economy. If higher interest rates coincide with a recession, the benefits will likely be mitigated by higher credit losses. We're not counting on interest rates going up to make our investment case, but if they do that's probably more an option on the upside than the downside.

How are you looking at valuation from today's stock price of around $46?

JL: Wells' shares have typically traded at a premium to other large regional banks, but at today's 1.3x tangible book value they trade at a discount. The regulatory penalty box they're in continues to weigh heavily on the valuation.

We basically believe that they will put this all behind them, that returns on equity and assets will improve from already healthy levels, and that improved market perception will drive the shares' valuation at least to peer levels of 1.5x to 1.7x tangible book and materially above today's 9.5x trailing P/E.

Going back to what we spoke about earlier: the valuation is attractive, we think the fundamentals are working in the company's favor, and taking a longer-term perspective gives us a differentiated view. This is a great example of what we're looking for.

Coming back to playing offense and defense, are there any areas of the market where the defensive aspect of the investment today is most prominent?

JL: I would put utilities, where we have an overweight, in that category. The stocks have held up well, as you might expect from a sector relatively immune to the concerns impacting much of the market today. At the same time, we think there's an offensive component to these companies as beneficiaries of broader secular trends around electrification and the investments necessary – upon which they can earn a regulated return – in renewable-energy generation, transmission and distribution.

One of our largest positions is in Southern Co. [SO], whose stock, like Wells Fargo's, has typically traded at a valuation premium but no longer does due to a number of operating missteps, most prominently around a large nuclear-power project in Georgia. Stocks like it are not glaring bargains today, but we like the long-term constructs for the industry and the individual companies we own, and think they are an important part of our having the right defensive team on the field today.

INVESTOR INSIGHT

Ryan Hedrick

"There's a lot of informed debate – people are comfortable speaking their minds and we don't have a lot of sharp elbows."

You worked at a number of investment firms prior to joining T. Rowe Price. What about how it does things sets it apart in your eyes?

Ryan Hedrick: One thing I find unique and quite refreshing about T. Rowe is the level of collaboration. Analysts are sector experts and work closely both with each other and with portfolio managers. Portfolio managers are in regular contact with each other. And it's not just checking in.

We're sharing what we know and trying to learn more about what we don't. There's a lot of healthy and informed debate – people are comfortable speaking their minds and we don't have a lot of sharp elbows. I think that level of ingrained collaboration is critical in generating insight from the bottom up as well as the top down.

I would also highlight the depth and breadth of relationships we've built with companies. We put a lot of effort into understanding the drivers and dynamics of individual industries, which we think is critical in developing useful perspectives on the companies in them. That can make us a resource to companies too. I was at a healthcare conference earlier this month and in most cases by the end of our meetings with management teams they were looking for our opinions on top-of-mind subjects to them. We have to earn that, but the dialogue it fosters can lead to deeper insight along the way.

On the subject of sector expertise, are there any industries today where you're finding incremental opportunity?

RH: I would say healthcare broadly and areas such as pharma and managed care more specifically. Pharma companies were largely left behind in the growth-stock run up and many still trade today at modest valuations. There are a number of moving parts – you have to understand the science as well as the revenue trajectory net of patent cliffs and new drugs, for example – but we think in an environment where it pays to be cautious, pharma stocks offer somewhat of a port in the storm. They're defensive, with low duration sensitivity which can help in a rising rate environment. AbbVie [ABBV] is an example of a name that interests us, trading at around a 13x forward P/E and with a 3.8% dividend yield. Attractive growth from drugs such as Skyrizi and Rinvoq and products such as Botox acquired in the 2019 acquisition of Allergan should more than offset the effects of its blockbuster Humira drug going off patent next year.

Managed care appears to us to be one of the more structurally attractive areas of the market in terms of the growth potential relative to valuations. Anthem [ANTM], for example, is the second-largest U.S. managed-care provider, offering commercial insurance, plans for government programs such as Medicare Advantage and Medicaid, as well as additional services such as a fast-growing value-based-care business. It has a variety of growth drivers, including a greater push into Medicare and Medicaid, expansion in pharmacy benefit management, and in actual care-delivery services that are higher margin for it and that could lower costs for the healthcare system overall. We think Anthem should be able to grow revenue at 9-10% and EPS in the low teens per year. Using a 16-17x P/E, it could be a $650-$700 stock a few years out. [*Note*: Anthem shares closed recently at just above $520.]

ON IDEA SOURCES:

The market tends to underestimate the durability and magnitude of growth in cyclicals with secular tailwinds.

Another attractive type of situation for us is when a company is going through some sort of transformation and the market is slow to form an opinion on how it plays out. That would describe fairly well the case for International Flavors & Fragrances [IFF] today. The company is a leading provider of ingredients that help provide taste, texture and scent to mostly consumer products. They sell more than 100,000 different ingredients, which typically are a relatively small percentage of the end-product cost, but they're able to capture value because their products are important drivers of customer affinity. Manufacturers aren't quick to change suppliers to save a few percentage points on cost.

The company just over a year ago completed its merger with DuPont's Nutrition & Biosciences business, and the jury is still out on the extent of the revenue and cost synergies the combination can foster. There was concern in the market that previous management wasn't fully up to the task around execution and capital allocation, which perhaps played a role in Frank Clyburn taking over as CEO in February of this year, joining from Merck, where he ran its Human Health division.

We think there's a significant margin-expansion opportunity as the two companies come together. If we assume 24-25% EBITDA margins within three years – up from about 20% today and below management's intermediate-term target – at a 16-17x EV/EBITDA multiple the stock would trade at $170-180. If the valuation was more in line with where European competitors such as Givaudan [Zurich: GIVN] and Symrise [Frankfurt: SY1] currently trade, the stock could be well into the $200s. [*Note*: IFF stock, trading below pre-pandemic levels, currently trades at around $133.]

From ingredients to semiconductor capital equipment, describe your investment case today for KLA Corp. [KLAC].

RH: It's not unusual for us to find opportunity in cyclical companies with structural tailwinds. The market tends to underestimate the durability and the magnitude of the growth in these businesses over time.

KLA is the market leader in the process control sub-segment of the semiconductor equipment industry. At each step of the fabrication process its equipment is monitoring and measuring the chips to make sure precise specifications are being met and that what's being produced is defect-free. It's all meant to improve yields, minimize downtime and ultimately improve profitability. With the cost of leading-edge fabs pushing $20 billion, there's an inherent value proposition in equipment that can do that.

One structural tailwind here is the rapid growth in demand for semiconductors in an increasingly digital, connected and cloud-based world. The semi-cap-equipment industry has probably tripled in size over the last six or seven years, and we

wouldn't be surprised if it continued to grow at a low-double-digit rate over the next five years. That offers pretty good opportunity for the companies that supply into that.

At a time when demand is so high, there's been a breakdown in the productivity of manufacturing semiconductors. It's getting more difficult to shrink transistor sizes and there is increasing use of more complicated 3-D device structures. The number of process steps is increasing. New materials are being introduced. More wafers are necessary to produce larger chip sizes. As this all gets more expensive and capital intensive, KLA's process-control tools become more valuable. And the fact that they're so deeply integrated into the production process makes customer relationships quite sticky and long-lived. KLA's share in the main area in which it competes has been very stable at more than 50%.

Another positive industry dynamic is the increased emphasis in the United States and Europe on the security of semiconductor supply. There's a recognition that maybe it's not such a good idea that 70% of the leading-edge semiconductors in the world are produced in Taiwan. It may be somewhat less efficient in the long run, but the trend toward domesticating supply likely means considerably more fab construction in the U.S. and Europe. That should only be good news for companies like KLA.

How do you see all this translating into upside for the company's stock, now trading at around $371?

RH: We recognize that cyclicality probably hasn't been banished from the semiconductor ecosystem and that the risk of recession has increased quite a bit of late. But if we extend our horizon out three to four years, we could imagine KLA compounding revenues at a low-double-digit rate and that earnings per share over the period could rise to the mid-$30s. Put a conservative 15x multiple on that and the stock would be well above $500. It's unlikely to be a straight line from here to there, but we do think the longer-term secular backdrop is pretty compelling, and could even surprise on the upside.

In general, would you say you're seeing the glass as an investor today as half full or half empty?

RH: I guess I would describe my mood as an investor looking at today's environment as cautious. Covid didn't reset the business cycle, so we're now more or less back to a late-cycle economy with some challenging macroeconomic and geopolitical forces at play. If there is such thing as a Fed put, it's deeper out of the money than it's been for a long time, and markets are repricing in relation to that.

That said, I'm still optimistic about the prospects for value investing. Value investors may need to go a level deeper in terms of specialization and perhaps bring new tools to bear as intangible assets become more prevalent in a digital economy. But the upside in buying businesses that have strong moats and are trading for less than they're worth hasn't and won't change in my view. That's the crux of what we're trying to do – regardless of the environment we're in.

INVESTMENT SNAPSHOT

KLA Corp.
(Nasdaq: KLAC)

Business: Supplier of equipment used to enhance yield management, process monitoring, diagnostics, inspection and control in the semiconductor manufacturing process.

Share Information (@5/27/22):

Price	**371.27**
52-Week Range	287.44 – 457.12
Dividend Yield	1.1%
Market Cap	$55.41 billion

Financials (TTM):

Revenue	$8.65 billion
Operating Profit Margin	39.3%
Net Profit Margin	36.4%

Valuation Metrics
(@5/27/22):

	KLAC	S&P 500
P/E (TTM)	18.0	21.1
Forward P/E (Est.)	15.3	17.6

Largest Institutional Owners
(@3/31/2022 or latest filing):

Company	% Owned
Vanguard Group	8.6%
BlackRock	5.4%
Capital Research & Mgmt	5.0%
Primecap Mgmt	4.9%
State Street	4.1%

Short Interest (as of 5/15/22):

Shares Short/Float	1.3%

KLAC PRICE HISTORY

THE BOTTOM LINE

Ryan Hedrick believes the company should benefit from strong secular semiconductor demand at a time when challenges to manufacturing productivity make its process-control equipment ever more valuable. Assuming what he considers a conservative 15x P/E on his earnings estimate three to four years out, the stock would trade at closer to $525.

Sources: Company reports, other publicly available information

INVESTOR INSIGHT

Vincent DeAugustino

"The starting point for an idea very often comes from curiosity about 'what the heck happened over there?'"

Can you generalize about the types of ideas and situations you gravitate towards in seeking out investment opportunity?

Vincent DeAugustino: Like a lot of value investors, I'd say I'm wired backwards. I love bad news – particularly from companies I don't own – so the starting point for an idea very often comes from curiosity about "what the heck happened over there?" Consistent with that, I tend to lead with a downside analysis. If it appears a stock is trading below where it should in what I can articulate as a reasonable downside scenario, that to me is a clear argument that it may be fundamentally mispriced and I need to dig in further.

Select Medical Holdings [SEM] is a longer-term position in the Mid-Cap Value Fund – for which I'm about to take over lead portfolio-management responsibility – but it's a relevant current example. The company operates recovery hospitals, outpatient rehab clinics and occupational-health centers, and the dominant issue it's dealing with today is a nationwide nursing shortage – exacerbated by the pandemic – that is significantly impacting staffing levels and driving up operating costs. The stock traded above $40 last summer and is now below $25.

Our basic view is that the spike in labor costs isn't permanent and we'll find an equilibrium below current levels as we return to a more normal healthcare environment. To the extent some of the pressure persists, Select Medical and its competitors will likely be able to pass on the related higher costs to payers. The market seems to be struggling with the timing on both of those fronts, but we're happy to take advantage of a time bet like this when we're as confident in the management and the business model as we are here. We think the shares today trade at below what we reasonably consider the downside looking forward, and within three years can trade at far above where they are today.

We see a similar type of set up today in RenaissanceRe [RNR], which is a leading property catastrophe reinsurer. For a variety of reasons, including concerns around climate change, the market has decided property cat reinsurance is just too risky, which for RenaissanceRe has resulted in the P/E on its stock being roughly cut in half, from the mid-teens to less than 7x today. [*Note*: RNR shares closed recently at around $155.]

There are a couple basic elements to the investment thesis here. Underwriting capacity in property cat insurance is shrinking, which to us signals the potential for more appropriate pricing of risk. That should accrue to the benefit of an incumbent like RenaissanceRe that has a long-standing track record as one of the smartest and most disciplined underwriters in the market. Any capital not deployed to adding gross written premium can be very productively put to use in buying back depressed shares.

There's also an idiosyncratic element here, which is that the company in recent years has built out its casualty-reinsurance book of business to an extent I don't think the market appreciates. As that book has been scaled and the reserve base has been built, this business hasn't yet shown a lot of profitability. We think that changes over the next couple of years and it starts to generate material incremental profits, especially if persistent loss-cost inflation pressures peers' older reserves. Combined with the potential hardening in the property cat market, again, three years out we think today's share price will prove to be a considerable bargain.

Are you finding these types of ideas more or less common in today's market?

VD: In general, I'd say we've gone from being a bit stretched in finding new ideas not that long ago to having a lot of ideas to sift through today. There's a saying that sometimes the market wants everything to be true, and the fact that that can't be the case can sometimes signal opportunity.

For example, everyone's trying to think through the impacts of things like higher inflation and interest rates. So you'll hear arguments that rates are going up, so housing is going to be bad. Housing is going to be bad, so building products are in trouble. Then you'll see a negative report on State Street [STT], the big custody bank and index-fund manager, where part of the argument is that while rising interest rates would be good for it, the rate cycle is going to be quick and the Fed is going to have to reverse course, which would be bad for State Street. If that's true, does that mean things might be less bad for housing and building materials?

None of this is easy to sort through, but the fact that sweeping and sometimes contradictory assumptions are being made and driving share prices can create opportunity. If you can see through the fog in certain cases, usually with a longer-term perspective, there's a chance you'll find something interesting.

One caution is that the heightened interest in safety has made some traditionally defensive stocks very expensive. I generally don't think expensive safety is all that safe. There are consumer-staples stocks out there trading at 30-year valuation highs. I guess they might go down less than some other things you could own over the near term, but that's never struck me as a great value proposition over time.

Describe the value proposition you see today in PG&E [PCG].

VD: This is the largest public utility in California, providing both electricity and natural-gas services mostly in the central and northern parts of the state. One question we ask early on in looking at a

company is how essential it is – if it closed down tomorrow, how much would people care? Love it or hate it, you can't argue that PG&E isn't critical to its customers.

What the company is best known for, however, is its role in the devastating wildfires that have hit California over the years. Accumulated liabilities from wildfires led it to file for bankruptcy protection in January 2019, from which it emerged in mid-2020. While the wildfire risk won't go away, we think the actions taken by the state and the company since it last went bankrupt mitigate the potential damage more than the market appreciates.

In mid-2019 California passed Assembly Bill No. 1054, which created through bond issuance, utility-company contributions, rate increases, and other sources of funding a mechanism that would help pay liability claims beyond what's covered by the utilities' insurance. There's a lot in there and the viability of the new system still needs to be tested in real time, but our overwhelming takeaway from AB-1054 is that California, in order to enact its clean-energy initiatives, needs its utilities to be viable, which includes having full access to capital markets. We think the new system accomplishes that by taking out much of the liability tail risk to PG&E from wildfires.

That wouldn't be enough if we didn't have confidence in management under CEO Patricia Poppe, who took over in November 2020. We think she's a straight shooter who gets things done and isn't constrained by how things have been done in the past. Very often in companies with reputational issues you need an outsider as a change agent who can rebuild relationships with all stakeholders, including politicians, customers, employees and investors. We think she's doing just that.

There's no better example than her announcement last July that the company plans to spend up to $20 billion to bury 10,000 miles of power lines to reduce wildfire risk. That had always been considered cost-prohibitive, but she made the case that it had to be done from a safety standpoint and that by reducing other operating costs – such as the $1.4 billion PG&E spends per year on trimming and cutting down trees – and working with regulators to get much of the capital spent included in the reimbursable rate base, it would make business sense as well.

How do you arrive at what you think PG&E's stock, now at $12.35, is more reasonably worth?

VD: While most utilities will tell you they can grow EPS reliability at 6-8% per year, we believe on the back of the new "undergrounding" initiative and from building out renewable capacity and other infrastructure that PG&E can grow earnings at closer to 10% annually. We would not argue that it deserves a peer 20x multiple, but even at 15x our $1.50-per-share estimate of earnings power within three years the stock would trade in the low-$20s.

We as a firm in our value strategies have fairly high exposure to utilities, which can fall in the relatively expensive defensive bucket I spoke about earlier. But generally for us there's also a company-specific element that is making the valuation much more interesting today. If we can buy defensive in an environment like this at a bargain price, all the better.

INVESTMENT SNAPSHOT

PG&E Corp.
(NYSE: PCG)

Business: Parent company of Pacific Gas and Electric, a regulated utility in central and northern California serving electricity and gas customers in 47 of the state's 58 counties.

Share Information (@5/27/22):

Price	**12.35**
52-Week Range	8.24 – 13.19
Dividend Yield	0.0%
Market Cap	$24.55 billion

Financials (TTM):

Revenue	$21.72 billion
Operating Profit Margin	14.9%
Net Profit Margin	1.2%

Valuation Metrics
(@5/27/22):

	PCG	S&P 500
P/E (TTM)	129.0	21.1
Forward P/E (Est.)	10.2	17.6

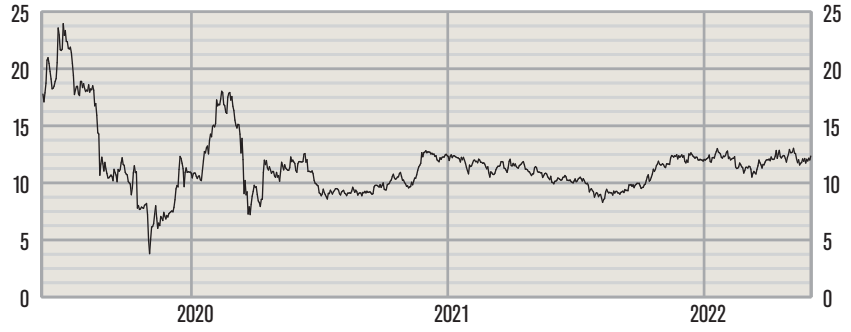
Largest Institutional Owners
(@3/31/2022 or latest filing):

Company	% Owned
Vanguard Group	8.8%
Capital Research & Mgmt	8.7%
Fidelity Mgmt & Research	5.5%
T. Rowe Price	4.1%
Third Point LLC	3.5%

Short Interest (as of 5/15/22):

Shares Short/Float	5.0%

PCG PRICE HISTORY



THE BOTTOM LINE

Wildfire risk will not go away, but Vincent DeAugustino believes actions by the state of California and the company in recent years mitigate the potential damage such risk entails. If earnings as he expects can grow 10% annually over the next three years and the stock earns even a below-peer 15x multiple, the shares would trade in the low-$20s.

Sources: Company reports, other publicly available information

INVESTOR INSIGHT

Gabriel Solomon

"This isn't really a time when you can target a sector or industry basket and expect the cycle to make it all work out."

The market could be characterized today as a bit scary. Would you agree?

Gabriel Solomon: I always think the world is a rocky, scary and risky place. From an investment standpoint, though, it's most risky when people are not concerned about risk. When I officially joined the U.S. Large-Cap Value strategy last October you could argue that was more the case, and we were finding far more selling opportunities than buying opportunities. Today when much of the conversation is about risks, as that gets discounted into stocks we see more of interest to buy.

That said, we think the near-term risks to the economy are quite legitimate. Our solution to that is to try not to get too caught up in making bets based on macroeconomic factors. We need to understand the exogenous and black-swan types of risks – say, the impact of China invading Taiwan on our portfolio companies with large exposure to China – but we spend most of our time focused on the fundamental drivers for individual companies and the idiosyncratic elements of their stories that might make them compelling.

We try to find good, or at least decent, businesses and business models that are significantly discounted. We recognize markets can be fickle and inefficient at times, and we have what I consider a healthy willingness to be contrarian and often lean into situations where industry dynamics are changing or there are near-term concerns about a cycle or a turnaround. Time horizon is a big differentiating advantage for us – as the market gets more short-term oriented we can from time to time see through controversy and develop a unique longer-term view.

Qualcomm [QCOM] would be a good representative example. There are some reasons why such a profitable, high-quality company trades at 10.5x forward earnings. People are concerned about whether it has room to grow in the handset market. Is Apple going to move away from it as a supplier? Are supply-chain and economic issues in a zero-Covid China going to last? Is the semiconductor industry after a tremendous run about to turn down?

We have to be thoughtful in assessing the extent to which any of those risks are transitory or permanent, as well as the extent to which they're already priced in. We also want to recognize the emerging areas where Qualcomm is investing and has strong momentum. It has tremendous potential in Internet of Things applications. It has tremendous potential in automotive applications, including from an important deal signed just this month with Volkswagen. Earnings in those areas would likely be much more highly valued by the market than those today from Apple. When we pull that all together, we think the stock [currently trading at around $140] offers a pretty compelling value.

For something like Cummins [CMI], which makes automobile engines, you have to work through both cyclical and secular concerns. Describe where you come out on it today.

GS: As you say, there are two big concerns. This is a very early-economic-cycle stock, and there are a number of justifiable worries about the economy. The second issue is more a terminal-value concern, that Cummins is going to be on the wrong side of change as the world moves away from internal combustion engines [ICEs].

With respect to the economy, we share many of the concerns, but would also make the case that those concerns have already been well discounted by the market. On 2023 consensus estimates, the stock trades at 10x earnings, which is at the very low end of historical ranges. Clearly the market thinks those earnings estimates are wrong, and the shares as a result have de-rated sharply and quickly. But just as early-cycle stocks are first to de-rate, they're also the first to re-rate, often before the economic clouds lift. It's important to be willing to buy them when people are most concerned.

We've concentrated our work on the secular-risk front, and our view is that Cummins has a greater chance of being part of the solution in the transition to electric vehicles than is commonly assumed. They've made strategic investments and acquisitions to position themselves in an increasingly EV world, most notably the acquisition announced in February of drivetrain company Meritor. It's a strategic bet, which we agree with, that engine technologies of the future will be intricately tied to the axle in EVs.

There's a ton of uncertainty here, so when we look forward five or ten years we can't make narrow estimates of earnings. But when we think about various scenarios from a probability standpoint, we conclude that the shares today [at a recent price of $208] trade at a discount that more than reflects the economic concerns, and we're getting a free option on the movement away from ICEs not being as bad for Cummins as the market expects. These are the types of situations we look for: a good company at a discounted valuation for transitory reasons, where we think there's limited absolute downside and asymmetric reward to the upside.

What do you think the market is missing today in Fiserv [FISV]?

GS: The company has two main businesses that are roughly equal in size. One is what's known as core processing, where they have a huge leadership position in handling the back-office processing for small and medium-sized banks. This part of the company has also expanded on the bank side into handling payments-pro-

cessing for bank-issued debit and credit cards. The second primary business, acquired when Fiserv bought First Data in 2019, provides card payment-processing services for merchants.

While the banking services tend to have higher switching costs, there is concern that as customer banks become larger and more vertically integrated they're likely to bring more of these outsourced processes in house. What we've found is that the banks benefit from Fiserv's scale and expertise, and that they only tend to bring in house areas that for Fiserv are commoditized and low margin. This is not a high-growth business, but a stable and recurring one that can still grow over time.

The merchant-acquiring business has higher growth potential, as consumers pay less and less with cash, credit-card penetration continues to expand, and consumer spending just generally increases over time. One thing that has weighed on the company's stock, however, is the perceived threat from new fintech firms that raised billions and billions of dollars in recent years, many professing to have superior technology and gunning for Fiserv's big card-processing market share. We think that risk has been overdone, as evidenced by many of those new competitors failing or being on the precipice of failure. Fiserv has done a good job in deepening its customer relationships so that clients are slower to switch vendors, and it also has the scale to invest in its own emerging products that keep newcomers at bay.

How inexpensive do you consider the shares at today's price of around $101.50?

GS: Fiserv's stock used to consistently trade at a high-teens to low-20s P/E, but that multiple today on consensus 2023 estimates is now less than 14x. We think that discounts very little if any growth, which we just don't believe is reasonable. We expect mid-single-digit annual revenue growth to translate into 10-12% annual earnings growth, after some margin expansion and accounting for share buybacks. If the multiple got back to even the mid-teens on that nicely growing earnings base, that would translate into an attractive return for us from today's price.

Have any of the highest-profile tech names attracted your interest after some material share-price declines?

GS: We're always interested in excellent companies with strong long-term growth opportunities that we can buy at good valuations. We are doing much more work on fallen tech angels, but haven't taken any prominent action. We already have a small position in Alphabet [GOOG], which we bought during the worst of the Covid concerns at what we thought was a legitimate value price. I personally think Facebook, now Meta [FB], is quite tricky and we haven't gotten over the fence in terms of being comfortable with it. I would say the same holds true for Netflix [NFLX].

This really isn't a time – as arguably was the case for much of the past several years – when you can target a sector or industry basket and expect the cycle to make it all work out. Today it's much more about individual companies with individual drivers and unique opportunities and risks. That makes it a stockpicker-biased market, which is what we prefer. VII

INVESTMENT SNAPSHOT

Fiserv
(Nasdaq: FISV)

Business: Provides a range for core processing, funds transfer, and other technology services for financial institutions as well as payment processing services for merchants.

Share Information (@5/27/22):

Price	**101.37**
52-Week Range	89.91 – 119.86
Dividend Yield	0.0%
Market Cap	$65.52 billion

Financials (TTM):

Revenue	$16.61 billion
Operating Profit Margin	15.2%
Net Profit Margin	10.2%

Valuation Metrics
(@5/27/22):

	FISV	S&P 500
P/E (TTM)	39.6	21.1
Forward P/E (Est.)	13.7	17.6

Largest Institutional Owners
(@3/31/2022 or latest filing):

Company	% Owned
Vanguard Group	7.0%
T. Rowe Price	6.7%
Dodge & Cox	5.7%
KKR & Co.	5.0%
BlackRock	4.1%

Short Interest (as of 5/15/22):

Shares Short/Float	1.7%

FISV PRICE HISTORY

THE BOTTOM LINE

The market appears reticent about the company's growth prospects, but Gabriel Solomon believes driven primarily by its payments-processing business that it can increase EPS at 10-12% annually over at least the next few years. If that happens and the stock returns more to historical valuation levels, he sees attractive upside from today's price.

Sources: Company reports, other publicly available information

Investor Insight: Ryan Batchelor

Ryan Batchelor and David Passey of Clifford Capital explain where they see the most value along the business-quality continuum today, why they think the focus on a company's "total addressable market" has been overdone, and what they think the market is missing in Big Lots, NCR Corp., American Express, Westamerica Bancorp and Pitney Bowes.

You describe your strategy as focused on two distinct types of investments, "core value" and "deep value." Explain what you mean by each of those and why you focus on both?

Ryan Batchelor: From early on in my development as an investor, both ends of what's considered the value-investing spectrum have made a lot of sense to me. One, which we call core value, focuses on high-quality, wide-moat businesses that can from time to time be temporarily out of favor. This is the only type of business to buy and hold, and core-value stocks will always be the majority of the portfolio.

At the same time, though, we also believe there's recurring opportunity in finding deep-value ideas that are so out of favor that if anything goes wrong you aren't likely to lose very much, and if things go even a little bit right you can make a lot of money. The potential returns tend to be higher, but so is the potential volatility, so we cap these ideas at 50% of the total portfolio.

We believe both types of investments are alpha-rich segments of the market, the return streams are complementary, and that we can increase the portfolio's total return by moving the weights of the two sleeves up and down based on the existing opportunity set in the market. When more deep-value opportunities exist, for example, it's usually a good indicator of the time to be in them. Since we started the firm in 2010, our gross return has been higher than what we would have earned by simply taking the average weighting of the two sleeves multiplied by their performance results. We attribute that to tilting more toward deep value when we see incremental opportunity there, and tilting away from it when we don't.

Does your idea-generation process differ for the two types of ideas?

RB: To a certain extent, yes. For wide-moat ideas, we have a curated watchlist of maybe 135 U.S. companies that meet our defined qualitative and quantitative criteria for competitively advantaged businesses we would want to own at the right price. Then it's a function of waiting for the right price, which can come along for any number of reasons. There could be an overreaction to short-term news, or maybe a segment that is temporarily struggling is overshadowing strong results elsewhere. The market overall might be down or the stock for some reason is being overly influenced by non-fundamental investors. When something we consider only temporarily negative happens that causes the stock to fall far enough to be interesting, we hope to take advantage.

One good example of this was when American Express [AXP] a number of years ago lost its co-branded card deal with Costco. In addition to the lost revenue, Wall Street was worried the company's brand power was eroding. We thought the loss of the business came more from a position of strength – they let it go because the terms were no longer economic. We also thought the proceeds from selling the Costco portfolio to Citigroup could be redirected to share buybacks that over 18 months would more or less offset the EPS impact of the lost business. So when the shares fell, that gave us an opportunity to buy into a company with one of the better business models out there at a price that we didn't think reflected that.

Another more recent example in a smaller, wide-moat company would be CDK Global [CDK]. It has the leading market share in the auto-dealer software industry in the U.S., but had underinvested in product development and needed to remedy that to address some unexpected customer-attrition issues that had started to impact earnings. We saw that as a fixable issue under a CEO, Brian Krzanich, who had taken over after being forced out

Ryan Batchelor

Stick to Your Guns

While on the KPMG audit team looking at retailer Spiegel Group's credit-card subsidiary in 2001, Ryan Batchelor came across in the company's books signs both of deteriorating credit quality in its private-label cards and of efforts to hide that deterioration. While his early warnings prompted pushback, he dug in and eventually convinced his KPMG colleagues that it shouldn't issue an audit opinion on the company. All to the good, as Spiegel filed for bankruptcy in early 2003, primarily due to excessive default rates on its credit-card receivables.

As the story unfolded, Wayne Pierson, a foundation chief investment officer and close acquaintance of Batchelor's, suggested that he consider a career in money management. Ferreting out insight from the financials was one thing, he said, but even better was that Batchelor had the temperament to stick to his guns in the face of pressure not to. "I can't say I really knew at the time what a portfolio manager did," Batchelor says, "but that started me on the path." After earning an M.B.A. from Brigham Young University and working as an analyst at both Morningstar and Wells Capital Management, he co-founded Clifford Capital – with early advocate Pierson – in 2010.

of the top job at Intel. But all the market seemed to see was the short-term pressure on results. The company wasn't well followed and wasn't the type of technology business the market cared much about. I'd argue there's been somewhat of a TAM [Total Addressable Market] bubble in recent years, where anything with a good story and a big TAM was worth billions in public or private markets, regardless of the business economics. Here was a highly profitable company, but it was entrenched in a market that wasn't that big or fast-growing.

This is one where the pandemic and supply-chain disruptions in the auto business had pushed out the time horizon, but we considered the thesis still intact when CDK agreed earlier this month to sell itself to Brookfield Business Partners. Having averaged down at points over the past three years we came out fine on the stock, but we don't think we're getting full value in the takeout.

Describe an example or two of what you consider deep value.

RB: It's harder to describe our idea-generation process for deep value because it's all about turning over hundreds of rocks and looking for gems. Sometimes there's a thematic element, say when the conventional wisdom is that Amazon is going to take over all retail. We'll look at the other side of that for companies we don't believe are going to be as impacted as the market seems to expect. Going even further back, a big theme was that the personal computer was dead and a company like Microsoft, if you can believe it, was trading for 10x free cash flow.

We recently added a deep-value position in WW International [WW], formerly known as Weight Watchers. The company is notoriously cyclical in normal times, and recently has had to struggle through the pandemic as in-person meetings were canceled and people put off their dieting plans. They also last year rolled out new more science-based and holistic programming that has been slower to gain traction than expected. Our basic view is that the new program has a great deal of promise that has been tough to realize in the current environment, but it should drive healthy subscription growth as people return to more pre-pandemic routines, including worrying more about their weight and health.

This year could still be rough, but the balance sheet is in good shape after a debt refinancing last year, so they'll have plenty of liquidity if it takes time – as we fully expect – for the new curriculum to gain more traction. But as with most deep-value ideas, the market isn't cutting them any slack. At today's share price [of $7], even if the new program next year only proves to be average relative to similar rollouts in the past, we think the upside in the stock is roughly 4x what we think the current worst-case downside is. This hasn't worked for us so far, but that kind of reward to risk is quite compelling.

ON PLAYING GAMESTOP:

You can't beat yourself up – we stuck to our discipline and I can't think of any other way to have handled it.

We have to ask about GameStop [GME], a position you sold right before it entered meme-stock heaven.

RB: GameStop is actually the epitome of a deep-value idea for us. When we bought into it in early 2019 the company was extremely out of favor because its core gaming-retail business was in secular decline. We had no real contrarian view on that, but one of our key thesis points going in was that they had way too many stores and that by shutting the worst 20% of them, the density of stores was high enough that they'd retain a lot of the revenues of the closed stores. Combined with the cost savings from shutting them down, we thought the net impact on EBITDA and cash flow could be significantly positive. The company also had $800 million of net cash on the balance sheet we thought it could put to value-accretive use, and we saw upside tied to the gaming-console cycle at the time. With expectations as low as they were, any good news had the potential to make the stock increase pretty dramatically.

We bought the shares at average prices below $10, thinking it had the potential within the next year or two to get to $18 to $20. Things played out quite nicely on a variety of fronts and by December 2020 the stock got to around $18 – what we still thought was fair value – and we sold. I had to endure quite a bit of ribbing from my kids when the stock took off the next month, but you can't beat yourself up about things like that. We stuck to our discipline and I can't think of any other way to have handled it. [*For more on GameStop and sticking to discipline, see the Editor's Letter on p. 21.*]

Would you say core value or deep value is presenting more opportunity in today's market?

RB: Our deep-value weighting in the portfolio is near an all-time high and pushing up against the 50% limit we've set for it. It's still such a big part of our strategy, but wide-moat investing got a bit crowded in the past five years, and while the valuation gap between core value and deep value has come in a bit lately, it's still historically wide. We look at reward to risk for every company we own, and right now our deep-value sleeve overall has roughly twice the potential upside of our core-value holdings, with actually somewhat less potential downside. The opportunity set in this regard is similar to what we saw at the end of the Internet bubble more than 20 years ago.

I'd also mention that for some time now we've increasingly found more and better ideas in smaller companies as the valuation gap between large and small has also continued to expand. Spreads when we started Clifford Capital in 2010 were relatively narrow – believe it or not you could buy Microsoft at 10x cash flow –

but with the FAANG phenomenon you've seen bigger companies consistently attract investor interest and money. Smaller companies are generally considered to be more at risk of disruption. And anything with the good story and a large TAM I spoke about earlier has become large cap almost immediately. There's no top-down judgment in our move toward smaller-cap companies, they're just more attractively valued than larger ones today.

What's your investment case for discount retailer Big Lots [BIG]?

David Passey: The company started out as retailer of closeout items, and while that's still an important traffic driver, closeout merchandise today accounts for only about 10% of total revenues. They sell everything from furniture to food, often playing up the treasure-hunt aspect of the inventory while targeting a low- to middle-income customer with bargain prices. It's been a very solid business, with returns on invested capital over the past 30 years averaging more than 14%, consistently better than Nordstrom.

Our first key thesis point is that the company has an extensive program underway focused on refurbishing and reorganizing its stores to drive higher comp sales. There's a lot involved, including moving certain goods like furniture to the front of the stores, redesigning the checkout process, and significantly expanding omnichannel sales capabilities. We got particularly interested in this when Jonathan Ramsden was named chief financial officer in 2019, coming from a previous role as chief operating officer of Abercrombie & Fitch. The refurbishment plan was in the works but he overhauled it, saying the company could reduce the capital spending involved by 80% while retaining the majority of the expected benefits. That increased our confidence that the program is going to be both disciplined and effective.

The second key thesis point is that the company after minimal store growth over the past decade plans to add a net 500 new stores – off a base of about 1,400 today – in the next five years. Like other discounters who have weathered the onslaught of online competition from Amazon and others, Big Lots now sees opportunity to grow again and at reduced cost as retail real estate has become increasingly available in good areas for them.

We're not counting on their guidance to like the stock at today's price, but management thinks these two initiatives can result in annual sales of $8 to $10 billion within five years, up from $6.1 billion in the latest fiscal year, and that operating margins can increase to 6-8%, from a 4-5% normalized level today. The midpoints of those goals would result in earnings per share of about $16 – against a current share price of just under $27.

The stock is down 63% from its 52-week high. What upside do you see from here?

DP: Recent quarterly earnings have been disappointing, due to the Omicron wave of Covid-19 impacting traffic, some excess inventories, and tough comparisons from the previous fiscal year. That plus additional concerns about inflation and its effects on lower-income consumers and the overall economy has made the stock cheaper than it was through the worst of

INVESTMENT SNAPSHOT

Big Lots
(NYSE: BIG)

Business: U.S. discount retailer of a wide range of furniture, housewares, home-décor items, clothing and food; describes mission as "helping people live big and save lots."

Share Information (@5/27/22):

Price	**26.94**
52-Week Range	24.87 – 73.23
Dividend Yield	4.4%
Market Cap	$769.3 million

Financials (TTM):

Revenue	$5.90 billion
Operating Profit Margin	1.9%
Net Profit Margin	1.2%

Valuation Metrics
(@5/27/22):

	BIG	S&P 500
P/E (TTM)	12.3	21.1
Forward P/E (Est.)	8.8	17.6

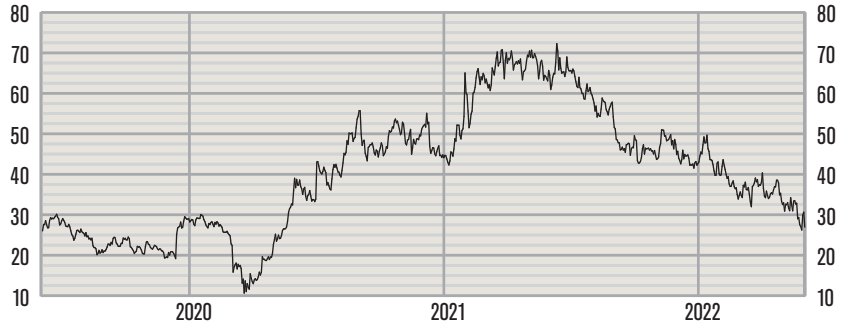
Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
BlackRock	16.3%
Vanguard Group	12.2%
Fidelity Mgmt & Research	10.9%
Dimensional Fund Adv	6.7%
LSV Asset Mgmt	5.8%

Short Interest (as of 5/15/22):

Shares Short/Float	28.0%

BIG PRICE HISTORY



THE BOTTOM LINE

"It makes no sense to us that at a time when we think the company's growth prospects are better than they have been in a decade, the stock is as out of favor as it's ever been," says Ryan Batchelor. Even without building in the growth he expects, if the shares return to what he considers more normal valuation levels, the stock would trade at $80 to $100.

Sources: Company reports, other publicly available information

the pandemic. It's a simple metric, but the shares currently trade at an enterprise value-to-sales multiple of only 0.13x, which is as low as it's ever been and way below the 0.4x to 0.5x we would consider normal. Using those normal ratios would equate to a fair value for the shares of $80 to $100.

RB: I would just emphasize that that normal EV/Sales multiple – which is more than 3x the current level – is on current revenues, not building in any upside from store growth or increasing comp-store sales. It makes no sense to us that at a time when we think the company's growth prospects are better than they have been in a decade, the stock is as out of favor as it's ever been. That's especially true for a business that, given its strategy and its historical record, should fare relatively well in a recession.

There's an activist involved here arguing the company should try to sell itself. Do you agree?

DP: We're not surprised in deep-value ideas when activists see some of what we see and agitate for change. In this case we wouldn't be averse to a sale, but think it could be for more than the suggested price range of $55 to $70 per share. We'd argue that as long as the market isn't appreciating the potential here, the company should continue to buy back its stock hand over fist. They've repurchased more than 25% of the outstanding shares over the past two years, while also completely eliminating debt. Buying back shares at today's price is an excellent use of capital.

Describe why you're high on the investment prospects for NCR Corp. [NCR].

RB: NCR has five primary business segments, focused on automated teller machines, restaurant and retail point-of-service systems, digital banking and payments networks. This is the type of tech stock we're finding on the other side of the technology bubble. Growth prospects range from the low single digits per year for ATMs, to the high single digits in restaurant and retail systems, to the low to mid teens for digital banking and payments networks. The company should benefit as points of contact with customers increasingly become more automated, digital and mobile, but the potential growth rates aren't off the charts and the total addressable markets aren't infinite. As a result, this just isn't the kind of company that has captured the market's imagination in recent years.

That's why we don't think the market appreciates the value inherent in each of the individual businesses, or the extent to which NCR's overall revenue profile is changing. Recurring revenues account for close to two-thirds of the total today, and management believes that number within five years will reach at least 80%. That should continue to make the business less cyclical and more predictable – and deserving of a higher valuation.

Another drag on the stock is that inflation and supply-chain pressures have caused the company some real pain. Sales cycles can be fairly long, so as input costs have increased NCR hasn't been able to pass them on immediately through higher sales prices. That resulted in management

INVESTMENT SNAPSHOT

NCR Corp.
(NYSE: NCR)

Business: Founded in 1884, provides customer-facing equipment and information systems that are primarily used by clients in banking, retail and hospitality end markets.

Share Information (@5/27/22):

Price	**34.98**
52-Week Range	28.00 – 49.05
Dividend Yield	0.0%
Market Cap	$4.78 billion

Financials (TTM):

Revenue	$7.48 billion
Operating Profit Margin	9.5%
Net Profit Margin	0.4%

Valuation Metrics
(@5/27/22):

	NCR	S&P 500
P/E (TTM)	328.8	21.1
Forward P/E (Est.)	9.6	17.6

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Vanguard Group	9.1%
BlackRock	7.7%
River Road Asset Mgmt	5.4%
Allspring Global Inv	4.9%
State Street	3.6%

Short Interest (as of 5/15/22):

Shares Short/Float	9.4%

NCR PRICE HISTORY

THE BOTTOM LINE

This isn't the type of technology company that has captured the market's imagination in recent years, says Ryan Batchelor, resulting in a share price that he doesn't think adequately reflects the value inherent in its disparate businesses. At 12x his estimate of normalized free cash flow within two to three years, the stock would be in the low-$60s.

Sources: Company reports, other publicly available information

lowering guidance recently, but they made a point that the issues were supply-chain based and not from any weakening in customer demand. The market didn't like the cut to guidance, but our view is that the issues are mostly short-term in nature.

At a recent $35, how inexpensive do you consider the stock?

RB: While they're guiding to less than $500 million in free cash flow this year, we believe the normalized level within the next two to three years is closer to $700 million. If the overall business grows and evolves as we think it will, we expect EPS can grow at better than 10% per year on an increasingly recurring revenue base. That in our view is conservatively worth at least 12x normalized free cash flow, which would equate to a stock price in the low-$60s.

We think highly of the management team and they've expressed frustration that the market doesn't fully understand the company as it's currently constituted. They're willing to pursue strategic options to remedy that, and we wouldn't be surprised if certain businesses, or even the whole company, attracted buyer interest. To give just one example of the value-creation potential, we could make the case that based on current peer multiples – not those of six months ago – the restaurant-point-of-sale and digital-banking businesses on existing results are worth close to NCR's entire market cap today. Those two businesses account for less than 20% of total revenues.

Coming back to a larger-cap, "core-value" idea, explain the opportunity you see today in American Express.

RB: This is a long-term holding of ours with a closed-loop business model we find highly attractive. The company issues its own cards to customers, processes card transactions on its own network, and manages the relationships with the merchants where its customers shop. It earns revenue from annual fees and loan-balance interest in some cases, but primarily from the roughly 2.5% of every transaction it charges merchants for the privilege of accepting its cards.

American Express cardholders tend to be more affluent and spend more on average than Visa or Mastercard holders, and we also think it's an important advantage that the company fully owns the customer relationship. They know what their cardholders are spending money on and can target products and services to them that incentivize further spending and more closely tie them to the Amex brand. During the pandemic, for example, rewards programs highlighted deals on things like Netflix or UberEats. Now there's much more focus on promoting travel and entertainment spending. This is a big benefit of the closed loop and plays a real role in driving brand loyalty.

We basically believe that the company can continue to take share in a secularly growing market as it attracts more merchants, which attracts more customers, which then again attracts more merchants. This is hopefully a more near-term benefit, but we also like that the business model provides built-in inflation protection. Revenues grow in line with what people charge on their cards, providing an almost

INVESTMENT SNAPSHOT

American Express
(NYSE: AXP)

Business: Global provider of charge and credit cards through individual and corporate accounts; serviced through a closed-loop merchant payment-processing network.

Share Information (@5/27/22):

Price	**169.60**
52-Week Range	149.71 – 199.55
Dividend Yield	1.2%
Market Cap	$127.72 billion

Financials (TTM):

Revenue	$45.83 billion
Operating Profit Margin	22.4%
Net Profit Margin	17.3%

Valuation Metrics
(@5/27/22):

	AXP	S&P 500
P/E (TTM)	17.0	21.1
Forward P/E (Est.)	15.0	17.6

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Berkshire Hathaway	20.1%
Vanguard Group	5.9%
State Street	4.5%
Wellington Mgmt	3.8%
BlackRock	3.6%

Short Interest (as of 5/15/22):

Shares Short/Float	1.2%

AXP PRICE HISTORY

THE BOTTOM LINE

While offering less absolute upside than many alternatives he's finding in today's market, Ryan Batchelor considers the company a solid "core-value" idea benefiting from an advantaged business model and a secularly growing market. Applying what he considers a reasonable 18x P/E to his EPS estimate for next year, the stock would trade at $207.

Sources: Company reports, other publicly available information

perfect pass-through of higher prices. Cardholders, given the benefits the cards provide, also haven't historically been overly sensitive to annual-fee increases.

From today's price of nearly $170, how do you see this all translating into shareholder benefit?

RB: Based on where card-network companies like Visa and card issuers like Capital One currently trade, you could given its business mix justify a 20x P/E for Amex. But the stock, which we'd argue deserves a premium multiple, currently trades at 15x forward earnings.

Simply applying an 18x multiple to the $11.50 in EPS we expect the company to earn next year would result in a share price of around $207, a bit more than 20% above today's price. While we think that's attractive, the relative upside here versus something like Big Lots or NCR explains why we've moved more toward deep-value and smaller-cap ideas. Amex is a great business trading at a decent price. The other two are examples of decent businesses trading at great prices. In today's environment, we're tilting toward the latter.

From credit cards to banking, explain your interest in Westamerica Bancorp [WABC].

RB: Regional banks are interesting to us as a sector today, and we think Westamerica is quite possibly the best regional bank in the country. It's an old-school relationship bank primarily serving small businesses in northern and central California. David Payne has been the Chairman and CEO since 1989 and runs an extremely tight ship, with negligible loan losses over time and funding costs that are among the lowest in the country. Almost 98% of total funding is deposit-based, and more than half of those deposits pay no interest.

The prolonged period of very low interest rates has compressed net interest margins at even the best banks and generally drove investor enthusiasm for U.S. regional banks into the ground. So part of our thesis is that as the general level of interest rates rises, the earnings power of banks like Westamerica with the lowest funding costs will incrementally and more visibly improve.

In addition to that, we believe we're about to enter a new mergers-and-acquisitions cycle for U.S. banks, where smaller, less-profitable banks seek out combinations with stronger peers like Westamerica. It's been some time since we've seen such a cycle – really going back to the 1990s – but banks like WABC with the right discipline and operational skill in those environments can generate considerable shareholder value through M&A. We think that's going to happen again.

Does the company have enough capital?

RB: Capital for growth is not a problem. We estimate WABC has roughly 25% more capital than it needs, and has plenty of capacity for organic growth if M&A isn't as attractive as we expect. Its markets have always grown at better-than-GDP rates, and with a current loan-to-deposit ratio of only 17% there's plenty of dry powder to put to work. Loan growth for them is typically better in tougher economic periods, when competitors are more rational in their pricing or pull back from lending in general.

INVESTMENT SNAPSHOT

Westamerica Bancorp
(Nasdaq: WABC)

Business: Regional commercial bank serving primarily small businesses in California, from Mendocino and Lake counties in the north to Kern county in the central part of the state.

Share Information (@5/27/22):

Price	**60.45**
52-Week Range	53.24 – 63.46
Dividend Yield	2.8%
Market Cap	$1.63 billion

Financials (TTM):

Revenue	$217.7 million
Operating Profit Margin	55.2%
Net Profit Margin	40.9%

Valuation Metrics
(@5/27/22):

	WABC	S&P 500
P/E (TTM)	18.3	21.1
Forward P/E (Est.)	16.2	17.6

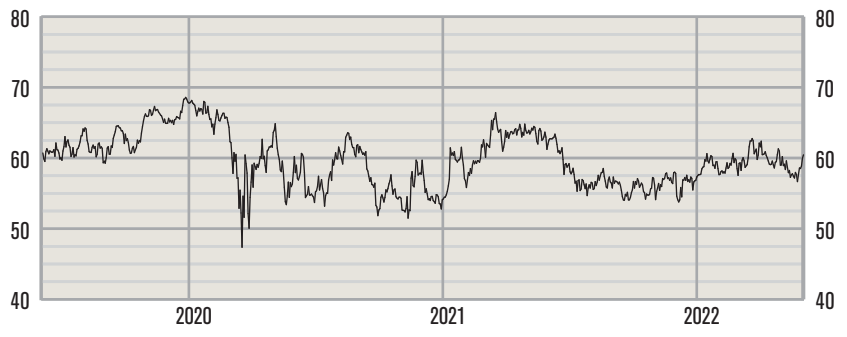
Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
BlackRock	13.9%
T. Rowe Price	13.5%
Vanguard Group	11.5%
American Century	5.3%
State Street	4.3%

Short Interest (as of 5/15/22):

Shares Short/Float	2.9%

WABC PRICE HISTORY



THE BOTTOM LINE

Ryan Batchelor believes the company is well positioned to benefit from rising interest rates and an expected strong mergers-and-acquisitions cycle for U.S. banks. His fair-value estimate for the stock two years out is $100 – 20x his $5 2024 EPS estimate that assumes incremental capital spent on organic growth, M&A and/or share buybacks.

Sources: Company reports, other publicly available information

What do you think the shares, now trading at around $60.50, are more reasonably worth?

RB: We assume that by 2024, with a fairly healthy economy and with some incremental capital spent on organic growth, M&A and/or share buybacks, that the company can earn around $5 per share. The stock has often historically traded at better than 20x earnings, but putting a 20x multiple on our 2024 estimate would result in a share price of around $100. At the current 18x forward P/E, the stock would be at $90. I would add that we're not building in much benefit from rising net interest margins – we consider that optionality on the upside.

What do you think the market is missing today in Pitney Bowes [PBI]?

DP: This is a deep-value idea we first bought in 2018, but sold in the first quarter of 2021 when it became a meme stock and the shares took off and reached our fair-value estimate. A few months later the Reddit army had moved on, the stock price came back down, and we re-established our position.

The bear case on the company has been known for a long time. Its legacy business in postage meters is a melting ice cube as physical mail volumes inexorably decline. What we think the market is missing is the extent to which the company has and will continue to lessen its dependence on mail, primarily through its e-commerce shipping business that currently accounts for roughly 45% of revenue. Here they primarily serve small and medium-sized businesses that contract with PBI to handle deliveries of products bought online, usually with two- to three-day delivery times. It's a nicely growing market and PBI distinguishes itself primarily in offering an easy-to-understand, cost-effective option.

The e-commerce business is a scale business and it's taken time and investment to build it out. The pandemic accelerated its growth for a while, but more recently volumes have been worse than expected as supply chains have broken down and people have started shopping more in person. Our primary thesis point is that despite some delay, this e-commerce business within the next 12 to 18 months will inflect and start driving positive growth in revenue and profits for the first time in years. If that happens, the sentiment around the stock and the valuation can't help but improve.

Do you have any variant views around the legacy business?

DP: Not so much around the postage-meter business, which is declining at roughly 5% per year, but the company also has a small but rapidly growing shipping business targeting this same customer group. That shipping business is only a little more than 10% of the segment's revenue right now, but it's been growing at over 20% per year and we think it can mitigate the decline in the legacy business to a greater extent than the market seems to expect. That type of thing can make a real difference in a company with such low expectations built in.

How are you looking at valuation from today's share price of $4.65?

INVESTMENT SNAPSHOT

Pitney Bowes
(NYSE: PBI)

Business: Provider of equipment, software and services used primarily to facilitate the sorting, sending, tracking and fulfillment associated with the delivery of mail and packages.

Share Information (@5/27/22):

Price	**4.66**
52-Week Range	4.27 – 9.92
Dividend Yield	4.3%
Market Cap	$808.2 million

Financials (TTM):

Revenue	$3.69 billion
Operating Profit Margin	4.1%
Net Profit Margin	1.4%

Valuation Metrics
(@5/27/22):

	PBI	S&P 500
P/E (TTM)	16.0	21.1
Forward P/E (Est.)	9.5	17.6

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Vanguard Group	11.3%
BlackRock	9.3%
State Street	3.6%
Goldman Sachs	2.3%
Charles Schwab Inv Mgmt	1.9%

Short Interest (as of 5/15/22):

Shares Short/Float	7.0%

PBI PRICE HISTORY

THE BOTTOM LINE

David Passey believes the company's e-commerce business within 12 to 18 months will inflect and drive positive overall growth in revenues and profits for the first time in many years. If that happens, applying a 10-12x multiple to his $200 million estimate of annual free cash flow within three years, he thinks the shares could be worth $11.50 to $13.

Sources: Company reports, other publicly available information

DP: We expect the e-commerce business to generate positive free cash flow by the fourth quarter of this year, and estimate normalized free cash flow overall in the next two to three years to reach $200 million. That excludes free cash flow from the financing division, which is positive but we don't consider a core part of the business. If it hits our estimates, the company will have proven that it can grow again and we'd expect the stock to earn a 10-12x free-cash-flow multiple. That would result in a share price of $11.50 to $13.

RB: I should briefly mention the balance sheet, which has been a source of concern and confusion in the past. People have at times thought the company was more leveraged than it really was, including in their leverage ratios about $1 billion of debt tied to the financing operation. With a successful debt restructuring prior to the pandemic and with cash flow consistently being directed to pay down debt, the company's net debt has declined by $1 billion over the past four years. Today we don't consider the balance sheet at all an issue.

How likely is it that the Reddit army comes back?

RB: That's definitely not a part of our thesis. Although I will say that one of the articles we read on the company that was important in spurring the Reddit-army rally was actually very consistent with our own investment case. It was reminiscent of the early pitches on GameStop – here's a secularly challenged business transforming itself in a positive way. We'd argue that the transformation is further along than it is with GameStop, but it doesn't appear the meme-stock crowd agrees with us at this point.

ON VALUE VS. GROWTH:

To get people really interested in value will take pain on the growth side – we're seeing some of that today.

How would you characterize your spirits in what's been a tough market?

RB: A large client the other day said we were among the few managers he's in touch with who are still smiling right now. We've said for a while that to get people really interested in value-based strategies again will take a lot of pain on the growth side. We don't wish pain on anybody, but we're seeing some of that pain today.

No one likes being down, but one of the real virtues of value investing done right is that you don't dig yourself as big of a hole as many other investors do and you should be in a better position to take advantage of bargains as they are created. It's easier in a lot of ways to be down 10% and have only to be up 11% or so from there to break even. It you're down 33%, you have to go up 50% to be whole again.

We're quite enthusiastic about the values we see in our portfolio and think value is clearly the inexpensive part of the equity market today. To the extent investors are recognizing that, we welcome adding assets when stocks are inexpensive. VII

Right Place, Right Time

There's a very high premium when investing in energy infrastructure companies on getting the cycle timing right. City Different Investments' Vinson Walden argues that the stars are aligned on that front for Norway-based Golar LNG.

Asked for some historical context on portfolio holding Golar LNG, Vinson Walden of City Different Investments pulls no punches: "It was a classic, multi-year value trap that was too complicated, too cyclical and had too much leverage," he says. "Happily, we were watching from the sidelines." Above $65 in 2014, the company's stock by mid-2020 was at $6.

Walden's take on Golar today is far different. Having streamlined its operations and its balance sheet, the company today is a pure play on liquefied natural gas [LNG]. It owns two LNG tankers and stakes in three listed LNG companies – New Fortress Energy [NFE], Cool Co. [Oslo: COOL] and Avenir LNG [Oslo: AVENIR] – but its primary assets are two giant Floating Liquefied Natural Gas (FLNG) facilities, one up and running off the coast of Cameroon and the other due to be put in service, offshore in Africa under a long-term contract with British Petroleum, by the end of next year. These vessels process offshore gas by cleaning, cooling and preparing it for transport in liquefied form. They can be redeployed to where they're most needed multiple times over their lifespans.

The company appears to have gotten its act together at an opportune time. Walden expects demand for natural gas in general and LNG in particular to remain strong as a cleaner alternative to oil and coal. LNG's transportability allows plentiful gas reserves in remote parts of the world, such as offshore Africa, to compensate for often-limited reserves in high-population-density areas, as in much of Asia.

The calculus for LNG has changed even further with the war in Ukraine. Prior to the war, European countries relied on natural gas for roughly 25% of their energy needs, and 40% of that gas came from Russia. As countries aggressively move to access non-Russian energy sources, LNG will likely play an increasing role. Germany, for example, recently announced plans to build two large LNG regasification facilities to help it wean its reliance on Russian oil and gas.

The improved prospects for Golar haven't been lost on the market – its shares at a recent $25.50 have doubled this year – but Walden believes there's considerable upside to come. Based on the excellent experience with the first FLNG facility, he's confident the second will start up on time and deliver on management's profitability goals. With both vessels up and running, he believes the company can earn around $450 million in EBITDA by 2024, which at what he considers a reasonable peer-level 10x EV/EBITDA would translate into a share price of just over $40.

One potential kicker to the upside: The company is actively assessing whether the changing supply/demand dynamics for LNG argue for it greenlighting two more FLNG assets. It expects to make a decision on that this summer, for completion likely in 2025 or 2026. "I won't give the hyperbolic scenario," he says, "but if that happens, it's very likely to create a lot of additional value." VII

INVESTMENT SNAPSHOT

Golar LNG
(Nasdaq: GLNG)

Business: Operator of Floating Liquefied Natural Gas [FLNG] facilities that transform gas for transport to customers worldwide.

Share Information (@5/27/22):

Price	**25.45**
52-Week Range	10.01 – 26.60
Dividend Yield	0.0%
Market Cap	$2.75 billion

Financials (TTM):

Revenue	$454.0 million
Operating Profit Margin	86.1%
Net Profit Margin	161.6%

Valuation Metrics
(@5/27/22):

	GLNG	S&P 500
P/E (TTM)	n/a	21.1
Forward P/E (Est.)	10.7	17.6

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Orbis Investments	10.7%
Cobas Asset Mgmt	9.6%
Rubric Capital Mgmt	6.3%

Short Interest (as of 5/15/22):

Shares Short/Float	3.7%

GLNG PRICE HISTORY

THE BOTTOM LINE

The company appears to have gotten its operational and financial house in order at an opportune time in the cycle for liquefied natural gas, says Vinson Walden. At a peer-level 10x EV/EBITDA multiple on his 2024 estimates, the stock would trade at just over $40.

Sources: Company reports, other publicly available information

Sustainable Energy?

Energy shares have been one of the only bright spots in an otherwise dim 2022 stock market. If you believe that cycle has legs, Wasatch Global Investors' David Powers explains why he thinks Suncor Energy is a prudent way to play it.

The energy sector has been one of the very few fertile areas for investors of late. So far this year the Vanguard Energy ETF is up an eye-popping 60%, over a period when the S&P 500 is down almost 13%.

Given such dramatic outperformance, a big question for energy investors today is whether the industry's resurgence is almost over, or whether it's in the early stages of a long-lived cycle. Beyond that, even if the cycle has legs, what companies and situations offer incremental upside?

David Powers, portfolio manager of the Wasatch Global Value Fund, is generally bullish on the cycle, owing to a "supply problem" seeded by years of underinvestment in global oil and gas exploration and development. Renewable energy will pick up some slack, but not enough and not right away. Damage to supply from the war in Ukraine will also likely persist beyond any resolution of the conflict.

Given that backdrop, he's targeting energy companies such as Suncor Energy, with plentiful and low-cost reserves and that have other ways to win than just from high and rising oil prices. About 80% of its production comes from low-cost Canadian oil sands, with average cash-flow breakeven before dividends at $30-per-barrel oil. It has significant and profitable refining and retail assets, smoothing out some of the cyclical impact of oil prices.

There's also a turnaround element to Suncor's story, he says. Long considered a best-of-breed operator whose stock deserved a premium to peers, in recent years the company has endured a number of production and safety missteps that have tarnished that reputation. That was a key impetus behind Elliott Investment Management announcing last month that it had taken an activist stake in Suncor and was calling for change. As it said in a letter to the company's board: "Our investment in Suncor is underpinned by our conviction that, with the right leadership, the company can restore its prior success." While Powers believes current management's investment of both time and money to restore the firm's operational excellence will pay off, he welcomes other investors who want the same thing.

He takes a conservative approach in valuing the company's ADRs, now trading at around $40.50. Assuming an average West Texas Intermediate crude-oil price of $86.50 next year – down from today's $115 – he estimates 2023 EPS at around $5.15 per share. At an 9.5x P/E – a 20-25% discount to U.S. peers – the ADRs would trade at around $49. While not offering dramatic upside from today's price, that estimate doesn't build in potential that oil prices and refining margins stay high or that the company's operating turnaround is as successful as he expects it to be. With respect to oil prices, each $5-per-barrel increase in the WTI price would add roughly 65 cents to his EPS estimate. "For a stock like this you don't want to price in the top of the cycle and you don't want to price in the bottom," he says. "We think we have a tremendous amount of optionality here on the upside." VII

INVESTMENT SNAPSHOT

Suncor Energy
(NYSE: SU)

Business: Oil production primarily from Canadian oil sands; also has significant downstream refining and marketing operations.

Share Information (@5/27/22):

Price	**40.61**
52-Week Range	17.10 – 40.72
Dividend Yield	3.2%
Market Cap	$57.23 billion

Financials (TTM):

Revenue	$43.94 billion
Operating Profit Margin	19.7%
Net Profit Margin	14.2%

Valuation Metrics
(@5/27/22):

	SU	S&P 500
P/E (TTM)	11.9	21.1
Forward P/E (Est.)	7.5	17.6

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
RBC Global Asset Mgmt	3.1%
Dodge & Cox	2.9%
1832 Asset Mgmt	2.9%

Short Interest (as of 5/15/22):

Shares Short/Float	1.3%

SU PRICE HISTORY

THE BOTTOM LINE

David Powers believes that for structural and self-help reasons the company can incrementally benefit from an ongoing upcycle in oil and gas. He values the shares at 20% above their current level, with a "tremendous amount of optionality here on the upside."

Sources: Company reports, other publicly available information

To The Moon

Ryan Batchelor's experience with GameStop, described in his interview in this issue, likely prompted some knowing nods from value investors with similar stories to tell. He bought shares in the videogame retailer at below $10 in early 2019 and sold them in December 2020 when a combination of his being right on the fundamentals and fortunate – that the pandemic set off a boom in the videogame business – led to the stock price hitting his fair-value estimate of $18.

You may remember what happened next. The month following his sale, GameStop went "to the moon" as a central player in the meme-stock frenzy. In intra-day trading on January 28, 2021, the share price hit $483, more than 25x where Batchelor had sold it the previous month. The stock has had ups and downs since but still hasn't fully retraced its steps, recently closing at around $137.

I rarely consider my own investing experiences worth sharing, but I have a similar story that prompted emotions that will likely be familiar to many of you – particularly given the market in recent years.

In February of 2019 I bought shares in online used-car retailer Carvana [CVNA] at $35.57. Admittedly not a classic value idea, I was intrigued by the company's potential to grow by disrupting an industry that seemed primed for disruption. The market blew hot and cold on the stock and I thought I was getting it at a cold moment that wouldn't persist.

I wish it happened far more often, but my timing was pretty good. The onset of the pandemic caused a minor correction, but sentiment on the stock turned highly positive, prompted by the company's impressive revenue growth. I'm embarrassed to say as a recreational investor I didn't have a firm sense of what I thought the shares were worth, but as the stock moved higher, my spidey-sense by the spring of 2020 told me to get out while the getting was good. I sold my shares at $86.74 on May 5 – lucky or smart, a great win.

It felt like much less of a win, however, as Carvana shares did their own version of going to the moon, topping out above $375 in August 2021. It took several more months from there for me to stop checking the stock and calculating how much money I'd left on the table.

The lessons to draw from these two stories? For Ryan Batchelor and his Clifford Capital Partners' colleague David Passey, one big one is to not let the market tell you on any given day what to think. Says Passey: "For the first 12 months we owned GameStop, the fair question to ask was how could we be so stupid to own it. For the 12 months after we sold it, that switched to how could we be so stupid to sell it. We'd love to be able to predict exactly how the market is going to perceive our stocks, but all we can really control – and act on – is what we believe they're worth based on the fundamentals."

Adds Batchelor: "Jean-Marie Eveillard used to say, 'It's warm with the herd.' That's why investing in deep-value stocks works. Going blatantly against the crowd is invariably going to look dumb for what may be an uncomfortable period of time. Most people won't do that, which can create better opportunities for those who can when they believe they're right."

As for my Carvana experience, the pain of leaving money on the table has been replaced by comfort that stocks – despite evidence to the contrary at times in recent years – can't levitate on promise forever. Its shares closed on Friday at $33.85, 60% below where I sold them in 2020. VII

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