ValueInvestor INSIGHT

The Leading Authority on Value Investing

August 31, 2020

Investor Insight: Chris Mittleman

Chris Mittleman of Mittleman Brothers Investment Management explains how he's processing a period of underperformance, why he doesn't shy from messy situations, why he bought into two pandemic "epicenter" stocks, and why he sees significant upside in International Game Technology, Cineplex, Village Roadshow and Greatview Aseptic Packaging.

INVESTOR INSIGHT

Chris Mittleman
Mittleman Brothers Investment Management

Investment Focus: Seeks companies with enduring franchises when the market's overreaction to macro or company-specific adversity creates a "valuation aberration."

While his long-term track record still commands considerable respect – a net annualized return since the beginning of 2003 of 10.7%, vs. 9.3% for the Russell 2000 index – Chris Mittleman of Mittleman Brothers Investment Management is not alone among value investors in giving back relative outperformance in recent years. "It's lazy to excuse it away by saying value investing has been out of favor," he says. "The weather is what it is and how we navigate it determines our success. We haven't been doing that as well as I'd like."

Mittleman remains committed to his concentrated, contrarian and global approach to rooting out value and is finding particular upside today in such areas as gaming technology, movie theaters, theme parks and consumer-goods packaging.

One could characterize your track record since starting your firm at the end of 2002 as "streaky," sometimes with long and pronounced ups and downs. Any ideas on why that might happen?

Chris Mittleman: Our strategy from the beginning has been very consistent and not markedly different from what sincere value investors normally talk about. To mitigate risk, which we define as the probability of a long-term loss of capital, we invest in what we believe are proven franchises with durable economic advantages, evidenced by well-established track records of substantial free cash flow generation over complete business cycles. We want to partner with managers with a clear owner mentality. And we want to invest only when a very low valuation provides us with a significant margin of safety.

In terms of our opportunity set, we're entirely unconstrained by capitalization, sector or geography and go anywhere the best risk/reward ratios appear to be available, in companies small and large, domestic and foreign. We've always believed in concentration, generally holding 15-20 stocks at a time.

As to the variability in returns, that's a bit more difficult to explain. Certainly managers with concentrated portfolios should expect lumpier performance than those who are highly diversified. What "works" in any given period can also vary markedly over time. I try to be careful not to overly rely on that as an excuse. Value investors arguably haven't had the wind at their back since the financial crisis, but we outperformed by a significant margin in the five years after 2009 and have underperformed by a much larger margin than I'd like since. The market backdrop isn't immaterial, but it's up to us to work with what the market give us. Right now we're in an extended period where we haven't done that as well as we should.

Has the latest relative drought caused you to rethink how you do things?

CM: Of course. A really severe bad period from which you snap back quickly – which is more what we've had in the past – is more tolerable than one that drags on and on. You're left wondering if there's some kind of permanent sea change you've missed, if there's something wrong with your process, if you're being obstinate or reflexively stubborn in holding on to bad ideas, or even if you just don't have it anymore. I'm very aware of all that and the way I deal with it is to try to be as dispassionate and methodical as possible. I go name by name through our portfolio and question all of the key assumptions I'm making that lead me to believe what I own is currently worth a lot more than where it currently trades.

I don't see permanent losses of capital. I don't see flawed logic. I still believe the value is there in our positions and will eventually be recognized. We've owned something like 100 names over the past 17 years and have made money in about two-thirds of them upon exiting the positions. That's not definitive, of course, as you could be taking outsized losses on the things you get wrong. But that's a pretty good hit rate and encourages me that we're more right than wrong in doing things the way we do.

Let's look at a specific large holding you've had for 10 years, cosmetics company Revlon [REV]. Like your overall portfolio, early on it was a big winner and since it has been a drag. Describe why you don't believe you're being "obstinate or reflexively stubborn" with it.

CM: You're right that by the end of this year we will have owned Revlon for 10 years, but I've actually been following the company since the early 1990s.

Revlon has faced a number of challenges that they, and we, didn't adequately see coming. There has been fragmentation away from legacy cosmetics brands, enabled by new and cheaper ways to market through social media. The U.S. market also has shifted away from mass-market legacy brands and toward more premium-priced brands. While that's been happening, the company's over-leveraged balance sheet hindered both its innovation and brand support. Then, of course, the pandemic hit and cosmetics sales like many other things fell off a cliff.

Investors quite often extrapolate recent trends into permanent secular changes, but in this case we just don't believe that's appropriate. Over decades Revlon has been on both the winning and losing sides of market-share battles, but the multi-decade players generally rejuvenate themselves and come back. Despite the challenges of recent years, the company still has leading market shares in key product categories such as lipstick, foundation, nail polish and hair color. It entered the prestige market in 2016 by buying Elizabeth Arden – paying only 1x sales versus most cosmetics deals at closer to 2.5x sales – and prestige now accounts for 20% of overall revenues. Innovation hasn't stopped and they've had success with some new products, including a new vegan hair-color line. We also can make the argument that mass-market brands are likely to come back into favor in a difficult economy and that many smaller, vanity brands will get shaken out in this downturn.

All of that makes us more optimistic than the market about Revlon's potential rebound. The balance sheet is still bad, but we believe they have the capacity to get through the downturn through a combination of asset sales, extending a bond maturity coming in 2021, and an injection of capital from the chairman, Ron Perelman. For all his faults and history of not always treating minority investors well, he still owns 87% of the company, increased his stake in it last year at more than 3x the current share price, and has supported it through thick and thin, including with additional capital.

It's not a nice and tidy story, but if we're right, we think the upside in the stock from today's price of around $7 per share is quite high. I've lowered my fair-value estimate, but if the shares traded at what we consider a reasonable 14x or so EV/EBITDA multiple on our normalized annual EBITDA estimate of $368 million, the stock price would be closer to $30.

As evidenced with Revlon, you've generally been fairly tolerant of relative illiquidity in your holdings. Have you rethought that at all?

CM: I can reasonably identify that taking advantage of the illiquidity premium has been a long-term positive for us. It has clearly been a penalty in the short term, but I expect it to remain a positive because that's in many cases where the value is. The value is where others have been increasingly unwilling to go because they've been punished for going there. ETFs and other passive strategies have also sucked money into liquidity and bigness, leaving anything small and less liquid wanting for air. There has to be at some point a swing of the pendulum back. It makes no sense for people to invest at free-cash-flow yields that get smaller and smaller when we're finding free-cash-flow yields that are getting bigger and bigger. I just don't believe that can last in perpetuity.

Have you seen fit to question your level of portfolio concentration in holding 15-20 stocks at a time?

CM: We question everything, but still believe concentration is the best route over time. It magnifies the swings, which doesn't feel great when the swing is on the downside, but we think the pendulum

Taking Aimia

Chris Mittleman's initial investment case for Canadian holding company Aimia [*VII*, October 31, 2018] was straightforward: In buying shares, he thought he was paying significantly less than the company's aggregated assets were worth. "We've had success investing in holding companies with interesting assets, cash, tax losses, and management with the right mindset and incentives," he says. "We thought Aimia could be just that and that we could help nudge it in the right direction."

Nudging, however, proved "utterly inadequate," he says, as the company made or contemplated asset disposals that fell far short of what Mittleman and other shareholders thought the assets were worth. That set in motion a process that resulted in a reconstitution of Aimia's board of directors in February 2020. In June, Aimia acquired Mittleman Brothers Investment Management and installed Chris as the holding company's Chief Investment Officer and his brother Phil as its CEO.

Driving share value is now very much in their hands. The company's primary assets also include minority stakes in the loyalty programs of airlines AeroMexico and Air Asia, Chinese outdoor-advertising firm Clear Media, and loyalty-program marketing-platform company Kognitiv. It has no debt, C$190 million in cash and around C$700 million in tax-loss carryforwards.

While he's careful not to present a company-endorsed estimate of current per-share value, he can as Mittleman Brothers' portfolio manager suggest an estimate of Aimia's "indicative net asset value," based on peer comps or other relevant metrics. As of June 30, he pegged that value at C$7.87 per share, a nearly 125% premium to the current share price of C$3.50.

moves back here again as well. When you really outperform, tolerance for concentration is often an important reason.

I don't want to give the impression that through any performance valleys we've had that we don't make some big mistakes. One of the biggest ones in the past several years was in an energy company then called Pacific Rubiales, which traded in Canada but was the largest independent oil and gas producer in Colombia. We don't invest a lot in energy, but in this case I was comfortable that the company's substantial infrastructure assets would help sustain it in a period of low energy prices. I was wrong and the extended drop in the price of oil starting in 2014 was enough to bankrupt the company. We sold our stake before that transpired, but it was a significant loss for us nonetheless. Our stress test of the balance sheet obviously needed to be more severe than it was. I would also say we probably put too much credence in the presence of other major energy-related shareholders in the stock who had domain expertise and more money on the line than we did. They missed it too.

We've seen in a not-insignificant number of your names over time that there was some sort of shareholder dispute going on. Do you actively seek that out?

CM: We definitely don't seek out a dispute and would prefer not to engage in them, but we're not at all afraid to stand up for our rights as shareholders when companies attempt to do things that we believe are anti shareholder value.

It's a long story that I'll try to condense, but we've been invested for some time in Clear Media [Hong Kong: 100], one of the largest outdoor-advertising firms in China with a focus on bus shelters. In March, Clear Media's largest shareholder, Clear Channel Outdoor [CCO], agreed to sell its 50.9% stake in the company to an investor consortium that wants to buy 100% of it and includes the current CEO, the French outdoor-advertising giant JCDecaux, and an investment arm of Alibaba's Jack Ma. Clear Channel Outdoor has its own problems, so it agreed to sell for what we consider an extremely low multiple of depressed EBITDA.

Our concern was that with a significant majority stake and a low bar having been set for the market value, the investor group would push to buy out the remaining shareholders at a fire-sale price. Our response has been to team up with the Canadian investment holding company Aimia, which we now help manage [*see box, p. 11*], so that Aimia bought a 10.85% stake in the company that gives it a blocking position against any deal it doesn't agree to. In a normal economy at a more than reasonable 10x EV/EBITDA, we think Clear Media's shares are worth more than twice the current share price [of around HK$7.10].

Your instincts to run toward the flame rather than away appear to have been intact when the pandemic crisis hit earlier this year and you added brand two positions, in cruise-ship operator Carnival [CCL] and rental-car company Avis Budget [CAR]. Describe your thought processes there.

CM: These are both businesses I've owned before and believe I understand. They were clearly in the epicenter of those impacted by the pandemic and their stock prices reflected that, both falling more than 80% from February to March.

I guess the first thing to say is that we were counting on this being like every pandemic in the past, meaning it would be transitory and that it wouldn't permanently alter the state of affairs over time for either company. Given how far the stock prices fell, we were basically just taking the under on the long-term effects of the pandemic.

With Avis, the business is volatile, but investors didn't seem to appreciate how quickly it can adjust in a slowdown by drawing capital out of the fleet as needed until demand picks up again. Airlines can't do that, nor can hotels or cruise lines. That's not to say it's in an easy business with no challenges, but we were confident the business wasn't as threatened as the share-price action indicated.

For Carnival, the downturn in the cruise business has been unprecedented, but we believe the company survives because it has plenty of access to capital by selling or mortgaging assets. There's just a very loyal and growing mass of humanity that really, really loves the cruise experience. When able, we think they'll come back as before and the company will again churn out considerable free cash flow. Given the share price, that didn't seem to be the conventional wisdom.

We're not rapid-fire traders, but in both cases we've already reduced our positions by about half. Our average cost on Avis was around $11.75 and we sold shares at around $35. With Carnival we got in around $8.30 per share and sold between $14 and $25. [*Note*: Avis shares closed recently at around $32.50; Carnival's at $14.65.] Between the two, we believe Avis is further along to being a normal business again, aided currently by people renting cars rather than using other modes of transportation.

You track the weighted average upside to fair value for your portfolio overall. What is that telling you today?

CM: Our stocks are trading at a weighted average EV/EBITDA multiple of just over 5x and a price-to-free-cash-flow multiple of just under 7x. The upside to fair value over the next 12 months or so is close to 180%, which is as high as it's been since the financial crisis.

As money continues to flow to big, popular and expensive stocks largely based in the United States, we continue to favor small, unpopular, extremely cheap stocks that are largely domiciled outside the United States. I think there's no question they provide the best risk/reward payoffs out there, but the market hasn't agreed with me yet. You can chalk this all up to the obstinate ramblings of someone who is just refusing to accept a new reality, but I have the same feeling today that I've had before every big turning point in our performance, which is that we're right and everyone else is wrong. That's kind of what it all comes down to.

Let's talk in more depth about some of those attractive risk/rewards you're seeing. Describe your investment case for International Game Technology [IGT].

CM: This is a business we first bought into in 2014 when it was known as GTECH and was focused primarily on developing and running lottery systems. In 2015 it took on its current form and name after buying International Game Technology, the world's largest slot-machine company. The two businesses are of roughly equal size in terms of revenue, but lotteries produce two-thirds of operating income.

The lottery side of the business tends to be more stable and produces almost annuity-like cash flows. Their biggest market is Italy, where they own a majority stake in a joint venture that runs on a long-term concession from the government one of the country's largest lottery games, a number of instant-ticket lottery games and a wholly owned sports-betting operation. In the U.S., they have nearly 80% market share from their multi-state Mega Millions, Powerball and Lotto lotteries. The latest big new-business win, in a 50/50 joint venture with Scientific Games, was in October of last year when they took over Brazil's recently privatized lottery concession in a 15-year deal.

The gaming side – which consists primarily of slot machines and casino management systems – is more cyclical, with the sales cycle correlated to capital spending by casinos, which is in turn sensitive to the casinos' economic fortunes. But there have also been company-specific problems here as well, largely due to a number of key game developers leaving the company after the 2015 merger, resulting in a period of market-share loss that has weighed on the stock price for years. Prior to the pandemic hitting, that business appeared to have stabilized and was showing early signs of growth.

As generally defensive as both lotteries and gaming have been in bad economies before, the nature of the current downturn with lockdowns and sheltering in place has clearly impacted short-term results. But it's not hard for us to imagine a return to normal in both businesses, so this has become somewhat of a re-open trade. Lotteries aren't going away, and the money they earn for states and municipalities is going to be more needed than ever. When given the chance, we expect people to go back to casinos and want to play the slots.

On this latter point, isn't there some concern that the next generation of casino-goers isn't as interested in slot machines?

CM: The replacement cycle for slot machines has been drawn out in recent years, which some people attribute to a secular shift in casinos emphasizing more entertainment-oriented offerings that have greater appeal for the younger generation. We don't necessarily disagree with that, but we think slot-machine makers like IGT can and will adapt by evolving their product lines as they've always had to do. They're creating more engaging machines, like those that can be linked together so that you can compete with other people, or that are more skills than chance based. Driven by new innovation, the replacement cycle for slots was actually turning up nicely before the crisis, which gives us more confidence in normalizing based on

INVESTMENT SNAPSHOT

International Game Technology
(NYSE: IGT)

Business: Global provider of technology products used in the gaming industry, including online and instant lottery platforms, slot machines and sports-betting systems.

Share Information (@8/28/20):

Price	**11.83**
52-Week Range	3.59 – 16.25
Dividend Yield	6.8%
Market Cap	$2.42 billion

Financials (TTM):

Revenue	$3.98 billion
Operating Profit Margin	10.4%
Net Profit Margin	(-14.9%)

Valuation Metrics
(@8/28/20):

	IGT	S&P 500
P/E (TTM)	n/a	36.2
Forward P/E (Est.)	7.0	26.7

Largest Institutional Owners
(@6/30/20 or latest filing):

Company	% Owned
Boston Partners	4.8%
Invesco Adv	3.1%
BlackRock	2.6%
Lazard Asset Mgmt	2.5%
Marshall Wace North America	1.6%

Short Interest (as of 8/15/20):

Shares Short/Float	5.3%

IGT PRICE HISTORY

THE BOTTOM LINE

Chris Mittleman believes the company can snap out of its doldrums with new innovation in slot machines, growth tied to sports betting and a return to pre-pandemic levels of consumer interest in lotteries. At a 10% yield on his $400 million estimate of normalized annual free cash flow, the shares would trade at a roughly 65% premium to today's price.

Sources: Company reports, other publicly available information

past performance. It is, however, something to continue to watch closely.

I should mention one important growth part of the business, providing technology platforms for sports betting, particularly in the United States where legal restrictions on it are being lifted. This generates a single-digit percentage of revenues today, but we believe IGT has both the technology and relationships to make this a material contributor to the overall business in coming years.

Is the balance sheet an issue?

CM: The leverage is relatively high at 5x net debt/EBITDA, which is elevated after $1.2 billion in cumulative payments made in 2017 and 2018 to renew the lottery concession in Italy for another 10 years. In general, this type of business can handle fairly high leverage, but we do expect IGT to direct free cash flow to debt repayment to get the net debt/EBITDA closer to management's target of around 4x.

How are you looking at valuation with the shares now trading around $10.80?

CM: To arrive at a normalized estimate of free cash flow, we throw 2020 out entirely and look at how the business has performed over the past ten years and use that to arrive at what we think it can earn going forward. When we do that we estimate normalized annual free cash flow at no less than $400 million. On today's market cap that translates into a free cash flow yield of 17%.

If we're right that the business returns to normal – which we think happens much sooner rather than later – the market won't put a 17% free-cash-flow yield on the stock. Even 10% would be high for a business with this stability and ability to generate free cash flow, but on our $400 million number that would result in the shares rising some 65% from here. Annual dividends totaling $0.80 per share were suspended through the middle of next year due to the pandemic. If they were to resume at the level, that would provide a yield over 6.5% on today's share price.

On the subject of businesses and normalizing, describe how you're handicapping the prospects for Canadian movie-theater company Cineplex [Toronto: CGX].

CM: I've been invested in the movie-theater business going back more than 20 years and have appreciated the relative stability of the cash flows it can produce over long periods of time. If you're generally attracted to a business and the stock of one of the best-in-class in the industry gets beaten down to a point where you can't resist it anymore, you buy it. That's what happened for us with Cineplex in the second quarter when the stock price fell from C$34 to as low as C$6.30.

Cineplex is Canada's top movie-theater company, with nearly 70% market share. (The #2, Landmark Cinemas, has 11%.) The long-time CEO, Ellis Jacob, has run the business for more than 20 years and has been an excellent steward of shareholders' capital. From its IPO near the end of 2003 through 2019, the company's shares produced an annualized 14.5% total return, vs. 7.9% for the S&P/TSX index. This year, of course, has been a disaster, and the stock today has only come back to around C$10.

INVESTMENT SNAPSHOT

Cineplex
(Toronto: CGX)

Business: Largest movie-theater operator in Canada, with ancillary operations in pre-show advertising, out-of-home advertising and destination entertainment complexes.

Share Information
(@8/28/20, Exchange Rate: $1 = C$1.31):

Price	**C$10.10**
52-Week Range	C$6.30 – C$34.39
Dividend Yield	0.0%
Market Cap	C$639.7 million

Financials (TTM):

Revenue	C$1.17 billion
Operating Profit Margin	(-4.3%)
Net Profit Margin	(-22.3%)

Valuation Metrics
(@8/28/20):

	CGX	S&P 500
P/E (TTM)	n/a	36.2
Forward P/E (Est.)	n/a	26.7

Largest Institutional Owners
(@6/30/20 or latest filing):

Company	% Owned
Sand Grove Capital	9.8%
Fidelity Mgmt & Research	9.5%
Empire Life Inv	3.5%
Leith Wheeler Inv Counsel	3.5%
Vanguard Group	2.9%

Short Interest (as of 8/15/20):

Shares Short/Float	n/a

CGX PRICE HISTORY

THE BOTTOM LINE
A best-in-class franchise in a business he believes is and will remain a "culturally ingrained, high-value-for-money form of out-of-home entertainment," the company should bounce back quickly as the Canadian economy rebounds, says Chris Mittleman. Assuming a 10x EV/EBITDA multiple on his 2021 estimates, the shares would trade at closer to C$22.

Sources: Company reports, other publicly available information

There are few things going on, but the crux of the issue is whether you believe the movie-exhibition business is in accelerated secular decline or whether it can come back to some semblance of normal when the threat of Covid-19 goes away. There's smart money on both sides, but we come down firmly in the camp that movie-going will remain a culturally ingrained, high-value-for-money form of out-of-home entertainment that is differentiated from and not mutually exclusive with the experience of watching Netflix or other streaming services at home.

There has been a decline in movie-theater attendance since 2003. It hasn't been a big number, maybe 1% per year, but the overall business has been able to grow through rising ticket prices and increased concession sales. We don't think those dynamics fundamentally change going forward. The experience of going to the movies is different from watching at home and is getting better with improved seating, improved food options, the ability to reserve seats and continued advancement in theater video and sound quality. When you compare the cost of going to the movies with other forms of out-of-home entertainment like going to a baseball game, or a play, or a theme park, it's still a significant bargain. That should translate into the ongoing potential to raise prices if needed.

Another thing of note here is that Cineplex had agreed last December to sell itself to U.K.-based Cineworld for C$34 per share, roughly 10x EV/EBITDA. The combination made a lot of strategic sense for Cineworld, but once the pandemic hit, its bondholders rebelled about the deal terms and Cineworld abandoned it. We would not be surprised if one day Cineworld again came back to the table, especially because we think it had no legal justification in backing out of the deal and could be liable to Cineplex for large damages.

How has Cineplex responded to the pandemic crisis?

CM: They cut capital spending to a maintenance level and also stopped new-investment spending on things like funding a Topgolf franchise in Canada. They also did a C$300 million convertible-bond issue in July, which should take going-concern risk off the table if Covid-19's impact doesn't extend much beyond a year. Canadian theaters have opened up ahead of those in the U.S., so we're hopeful the path to recovery is a bit closer at hand. We're counting on next year being a relatively normal year.

If the impact of Covid goes on longer, Cineplex has significant additional capital accessible from a number of ancillary assets it has developed over time, including their own loyalty program with co-branded Visa credit and debit cards, an in-theater and out-of-home advertising business, and a Dave & Buster's-type location-based entertainment business. Looking at them as a whole, we think these ancillary assets are worth more than C$500 million, which is a significant chunk of the current market value. We don't expect them to have to monetize any of that, but doing so could materially extend the liquidity runway if needed.

ON MOVIE EXHIBITION:

We're positive on the prospects for feature films in the competitive world of out-of-home entertainment.

What upside do you see in the stock?

CM: We think the company in 2021 can generate C$250 million in "EBITDAaL" – "aL" stands for "after Lease expenses" – which is a 16.7% margin on C$1.5 billion in estimated revenues. Adjusting the balance sheet for roughly C$120 million in cash burn in the second half of 2020 and for the new convertible-bond issue, if we use the 10x EV/EBITDA multiple Cineworld had agreed to pay, we arrive at a $C22 per share fair value. Given the downside protection we see here from the ancillary-asset value, we think the risk/reward is very much tilted in our favor.

With a similar profile but in a different part of the world, explain your case for Australia's Village Roadshow [Sydney: VRL].

CM: Village Roadshow has two primary business lines, movie exhibition and theme parks. It's been in the theater business since 1954 and today with a joint-venture partner operates around 600 screens across nearly 60 sites in Australia. In theme parks it operates a number of properties on the country's Gold Coast, including Warner Bros. Movie World, Sea World Resort and Water Park, and Australian Outback Spectacular. The revenue split is roughly one-third from theaters, one-third from theme parks, and most of the rest from a filmed-entertainment distribution business and a loyalty and marketing-services business. The founding Kirby and Burke families still own more than 40% of the outstanding shares.

As we already talked about with Cineplex, we believe the movie-exhibition business snaps back when the coronavirus is no longer an issue, and we're also positive on the long-term prospects for feature films in the competitive world of out-of-home entertainment. The dynamics are similar for theme parks and we also believe the Gold Coast of Australia has significant potential to develop into even more of a destination-resort area, capitalizing on rising travel and vacation demand from Asia. That should provide incremental growth opportunity for the company.

There also appears to be some deal-related controversy here. Explain what's going on with that.

CM: In December of last year, Village Roadshow received a takeover offer from private-equity firm Pacific Equity Partners for A$3.90 per share, a 22% premium to the prior day's closing price. The deal was supported by the controlling shareholders, who granted Pacific Equity a call option at A$3.90 on nearly half their families' stakes. Then in January of this year another private-equity firm, BGH Capital, made a slightly higher offer of A$4 per share. We thought both bids, which came out to around 7x EV/EBITDA, were wholly inadequate. The historical norm for the multiple was closer to 8.5x, with no control premium. Using that multiple the stock was worth 30% more than the original A$3.90-per-share bid.

Since the pandemic, Pacific Equity dropped away and BGH Capital is now only willing to pay a much lower price, which we estimate at A$2.20 to A$2.45 per share. It's hard to tell, because it's a ridiculously convoluted, contingent and coercive low-ball offer meant to take out minority shareholders for a song. We think it's a travesty that the founding-family shareholders are endorsing it, which to us feels like an opportunistic effort to get rid of minority shareholders at the bottom and then share in the upside with new private-equity partners as things return to normal. What we expect to happen – although it's not at all certain – is for the deal to be voted down and then the stock can go back up to a level more representative of the value here. If there's a fight for fair value to be had, we may end up leading it.

INVESTMENT SNAPSHOT

Village Roadshow
(Sydney: VRL)

Business: Australian entertainment provider with primary operating segments focused on theme parks, movie exhibition, film distribution, sales promotion and loyalty programs.

Share Information
(@8/28/20, Exchange Rate: $1 = A$1.36):

Price	**A$2.11**
52-Week Range	A$0.77 – A$4.10
Dividend Yield	0.0%
Market Cap	A$412.0 million

Financials (TTM):

Revenue	A$786.2 million
Operating Profit Margin	(-13.9%)
Net Profit Margin	(-14.9%)

Valuation Metrics
(@8/28/20):

	VRL	S&P 500
P/E (TTM)	n/a	36.2
Forward P/E (Est.)	19.3	26.7

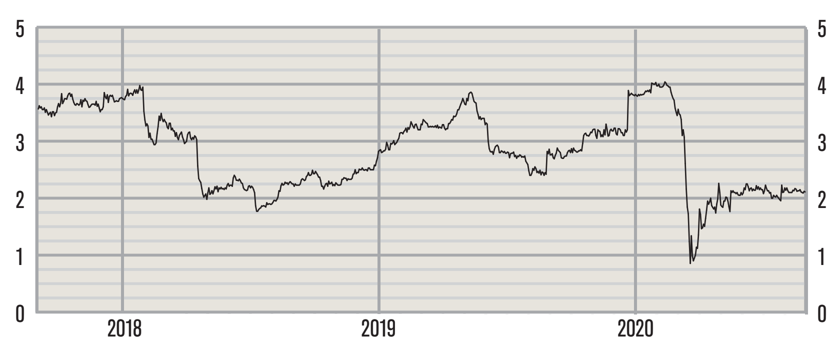
Largest Institutional Owners
(@6/30/20 or latest filing):

Company	% Owned
Mittleman Brothers Inv Mgmt	8.5%
Spheria Asset Mgmt	5.0%
Dimensional Fund Adv	2.4%
Vanguard Group	1.4%
Wilson Asset Mgmt	0.9%

Short Interest (as of 8/15/20):

Shares Short/Float	n/a

VRL PRICE HISTORY



THE BOTTOM LINE
While the company is entertaining what he considers a "convoluted, contingent and coercive low-ball offer" for it, Chris Mittleman believes reason will prevail and the share price will rise to a level more commensurate with its post-crisis prospects. Applying a 9x EV/EBITDA multiple on his calendar-2021 estimates, the shares would trade at A$4.85.

Sources: Company reports, other publicly available information

The stock today trades at A$2.10 – what share price do you think is more representative of the value here?

CM: When normalcy returns, we estimate that annual EBITDA – as early as calendar 2021 – will be around A$140 million. Looking at where direct comps in both theme parks and movie theaters trade and where deals are typically done, we think the business overall is worth at least 9x normalized EV/EBITDA. That would give us an A$4.85 share price, an estimate we reduced recently because of an increase in net debt.

If you buy today, the negative outcome is that you get taken out by the offer on the table at around this price or slightly more. If I'm right and the deal is rejected – which becomes increasingly likely as the business recovers – then the upside looks to us to be about 130%.

Turning to something quite different, describe the investment appeal of Greatview Aseptic Packaging [Hong Kong: 468].

CM: This is the second-largest manufacturer in China of aseptic packaging – think those rectangular boxes that allow mostly juices and dairy products to be stored on shelves for up to six months with no refrigeration. The company was founded by a former employee of the Swedish company Tetra Pak – which is the global market leader and #1 in China with 65% market share – and came public in 2010. China accounts for roughly 70% of Greatview's business, with most of the rest distributed throughout Asia and in Europe.

Aseptic packaging is especially important in developing countries where cold storage and cold transportation infrastructure are lagging. As a result, it should continue to take packaging market share in consumer markets that are benefitting from an expanding and wealthier middle class and that should remain quite resilient against economic cyclicality. In places like China where the government is actively promoting domestic consumer spending, this is the type of company that can incrementally benefit.

Greatview's basic strategy as it increases its scale and distribution reach is to continue to undercut on price Tetra Pak and the other important global player, Swiss-based SIG Combibloc [Switzerland: SIGN]. They do that mostly by selling the packaging equipment that customers use on site at a low margin and then making much of their money on ongoing maintenance and material supply, but they will also just supply the packaging material itself at a lower price to a user with its own equipment already in place. The formula is working well – EBITDA margins aren't at the levels of Tetra Pak and SIG Combibloc, but still run at a healthy 20% – and we think has a long way to run.

How do you see that translating into upside for the shares, now trading at around HK$3.20?

CM: To simplify things, we model this out in U.S. dollars. We believe next year the company can earn roughly $80 million in EBITDA on $400 million in revenue. We consider the lowest end of the valuation range for a growing, high-margin packaging company to be 10x EV/EBITDA, which on our numbers would translate into a 65 U.S.-cent share price, or just over HK$5 per share. We like that Jardine Strategic Holdings [Singapore: J37], an investment holding company we respect and have invested in the past, bought a nearly 30% interest in Greatview in 2017 at around that same share price of HK$5.

The last thing I'd mention is the quality of the corporate governance we see here. The company's founder and CEO, Jeff Bi, still owns close to 20% of the stock, invests in growth initiatives wisely, and pays out all the company's remaining free cash in dividends. At the current share price, the dividend yield is over 8%.

In our interview six years ago you said, "Success in investing comes down to how much discipline you can muster in changing circumstances." That's as true when things are going well as when they're not. Would you update that statement in any way today?

CM: Joe Paterno, the head football coach at Penn State from 1966 to 2011, was my uncle. I remember one game when I was young where Penn State was playing Alabama for the national championship in the 1979 Sugar Bowl and ended up losing when Alabama held firm on a goal-line stand right as time was running out. My uncle was criticized for just running it up the middle from the one-yard line, that he should have done something different to catch the other team off guard. But he had a consistent strategy for how he managed games and in this case it didn't work out. That didn't mean the discipline was wrong, it just didn't pay off in that particular instance. He won his first national championship four years later and another one four years after that.

Look, a bad discipline is not going to help you. You clearly have to believe in the discipline, and I still do. I don't think we should be less valuation sensitive, or more attuned to high growth, or diversify much more broadly what we own. You can make as much money or more buying good companies at very low prices as you can buying great companies at high prices. I don't think that's changed at all. VII

INVESTMENT SNAPSHOT

Greatview Aseptic Packaging
(Hong Kong: 468)

Business: Manufactures and sells paper-based packaging used for shelf-stable dairy products and non-carbonated soft drinks; significant majority of business is in China.

Share Information
(@8/28/20, Exchange Rate: $1 = HK$7.75):

Price	**HK$3.20**
52-Week Range	HK$2.21 – HK$4.37
Dividend Yield	8.4%
Market Cap	HK$4.28 billion

Financials (2019):

Revenue	RMB 2.71 billion
Operating Profit Margin	16.2%
Net Profit Margin	12.5%

Valuation Metrics
(@8/28/20):

	468	S&P 500
P/E (TTM)	11.2	36.2
Forward P/E (Est.)	n/a	26.7

Largest Institutional Owners
(@6/30/20 or latest filing):

Company	% Owned
M&G Inv Mgmt	7.5%
Edgbaston Inv Partners	4.9%
Seafarer Capital Partners	2.8%
Vanguard Group	2.6%
Fideuram Asset Mgmt	1.9%

Short Interest (as of 8/15/20):

Shares Short/Float	n/a

468 PRICE HISTORY

THE BOTTOM LINE

The market doesn't appear to be adequately recognizing the growth prospects and resiliency of the company's business model, says Chris Mittleman. At even the lowest end of the valuation range he'd expect for such a high-margin packaging company, on his 2021 estimates the share price would be around HK$5, 55% above today's level.

Sources: Company reports, other publicly available information

Mittleman Investment Management, LLC ("Mittleman") is an SEC-registered investment Advisor. Mittleman's value-oriented strategy is to invest in a concentrated portfolio (usually holding between 10 to 20 securities) of primarily common stocks, unrestricted as to market capitalization, of both domestic and international companies. Mittleman's performance referenced herein are composite returns calculated net of management fees and applicable trading costs and include the reinvestment of all income. Past performance is not a guarantee of future results. Investments made by Mittleman for its clients differ significantly in comparison to the referenced indexes in terms of security holdings, industry weightings, and asset allocations. Accordingly, investment results and volatility will differ from those of the benchmarks.

This article expresses Mittleman's view as of the date of this article and should not be relied on as research or investment advice regarding any stock. Mittleman's views may change anytime without notice. The information contained herein is for illustration and discussion purposes only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The specific securities identified and described herein do not represent all of the securities purchased or sold for clients and the reader should not assume that investments in the securities identified and discussed were, or will be, profitable and may result in a loss. Chris Mittleman and/or the Firm's employees and clients may have a position in any of the securities referenced in this article. The reader should not assume that an investment in any securities identified was or will be profitable. There are risks associated with investing in securities. Investing involves risk of loss, including possible loss of principal. Investments in foreign securities may underperform and may be more volatile than comparable U.S. securities because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, foreign currencies and taxes. Investments in foreign and emerging markets present additional risks, such as increased volatility and lower trading volume.

For more information on Mittleman and its services please contact the Firm at (212) 217-2340 or info@mittlemanbrothers.com.