

A View From Here - July 2018

*Saying goodbye doesn't mean anything. It's the time we spent together that matters, not how we left it." -
Trey Parker*

All-Time Highs

June continued with a string of exceptionally strong performances that really began to take flight in October of 2017. Not that things were so bad prior to as accounts had climbed to new highs from 2016 year-end through to the end of April 2017 but then consolidated as some of our deep value investments weakened. Thankfully, this had been offset by the strength in some of long-standing investments, which helped lead accounts higher by year's end. This kept the consolidation of our media, oil service and retail investments muted and led to an ascension in some of these names and the first takeover since Journal Media in 2015 from our oil and gas service company, Aveda in April.

With a strong month of May, some of our more recent retail investments rewarded us. June provided all-time highs in our FirstService, Colliers & Constellation Software and our investment in Lee Enterprises revealed a significant corporate development by receiving an endorsement by the world's best known investor, Warren Buffett leading to new 52-week highs. Our accounts are at levels not previously scaled, so this summer - order the large soft drink if it's too hot outside.

News Media Vindication

While there are a number of local news media companies with higher valuations, none are close to Lee's 23% - 26% operating cash flow margins. I've been scratching my head wondering what rock was coming for us as the share prices of their peers elevated much higher while Lee barely participated. None of them, however, got the call from Warren Buffett. Seeing as Berkshire Hathaway's local news operations were performing at what appears to be less than a third of the efficiency of Lee, they struck a deal with Lee to help them manage their media businesses by plugging their operations into Lee's 'playbook' at little cost to Lee. This could bring significant benefits for us as shareholders providing another source of cash flow growth offsetting declines from news media's tradition from print to the combination of print and digital. Further, it increases the likelihood of better refinance terms for their outstanding debt, which appears to be more likely in 2019.

I believe there is a reasonable chance that this is a game-changer in terms of how the company is valued on a go-forward basis. While many have expressed concern for Lee's declining revenues, their free cash flow is actually growing and they maintain operating margins at a much higher level than the industry norm. Lee is perhaps the most unique investment that we have ever pursued but it hasn't been without its challenges and anxieties. With this development, at least we know that we share the view of their operating excellence with Warren Buffett; and that's no lightweight endorsement. In fact, there couldn't be a better one.

As a side note, I spent some time speaking with the interim CFO Tim Millage and among the questions I had to ask was, "did you meet Warren?" He said, "Yes, we had a breakfast meeting with him and other executives and it was quite surreal." Of course I had to joke, "Did you tell them you know Adam Hennick." Sadly, he forgot to mention it.

Knowing that people pay millions to charity just for the chance to have lunch with Warren Buffett, which must have been something.

Fare Thee Well Afsi

Knowing someone well for over 20 years is one thing, but working closely with someone for over 10 of the last 12 years, is another. With that, we wish Afsi Shaygan a fond farewell as she ventures into retirement. Afsi had immersed herself into our practice with grace and humility and many of us had come to rely on her voice and patience. What is going to be the biggest challenge for me is all the time that we spent discussing not just administration, but also our investments and their challenges, triumphs and most

importantly, of our own life's journey. Afsi was there for many successes as well as adversity both personal and professional. She provided a steady hand of reassurance that we are on the right track. There's always an open door for someone like that in our lives and I know that mine was made better for having spent over a decade with her.

It is comforting to know that we have such competent back up that minimizes any administrative challenges.

Thanks for taking a look, and as always,

All Good Things

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