

# We Still Believe in Value

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Southeastern / Asset  
Management

Confidential

Long-Term / Concentrated / Engaged / Value

# Disclosures



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# Thank You for Having Me Back!



But what is there to say that's new?

Hated  
Ignored  
Misunderstood

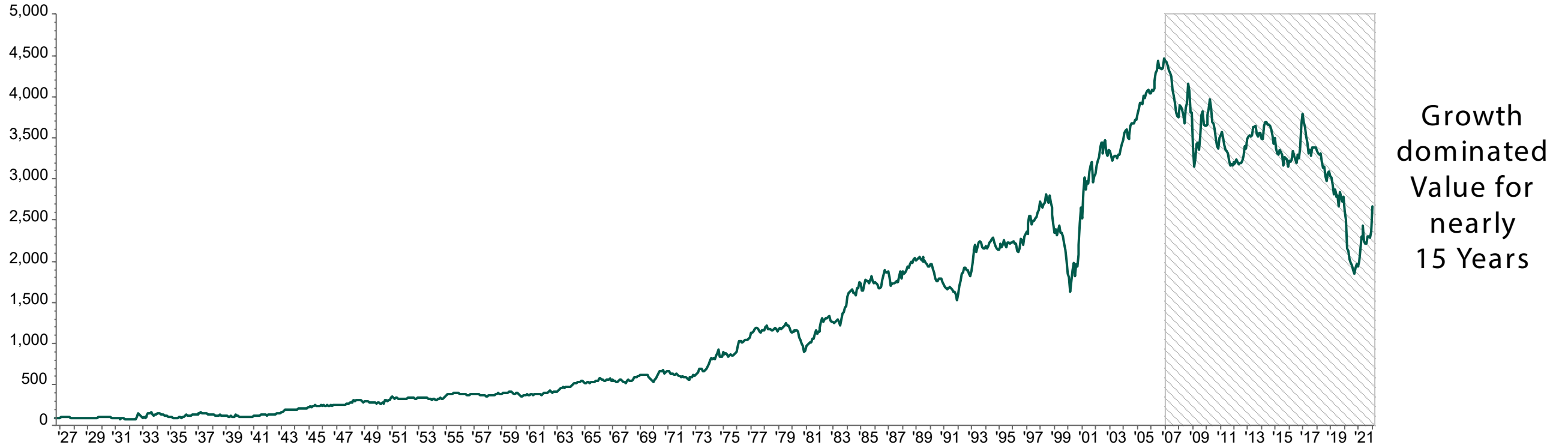


# Value vs. Growth

Over the long -term, the Value factor has outperformed the Growth factor, but since the Great Financial Crisis, Growth had outpaced Value

## Cumulative Return of the Value Factor

Index, 7/31/1926=100



Source: Fama/French Data Library ([http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html#Research](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html#Research)) data through February 2022

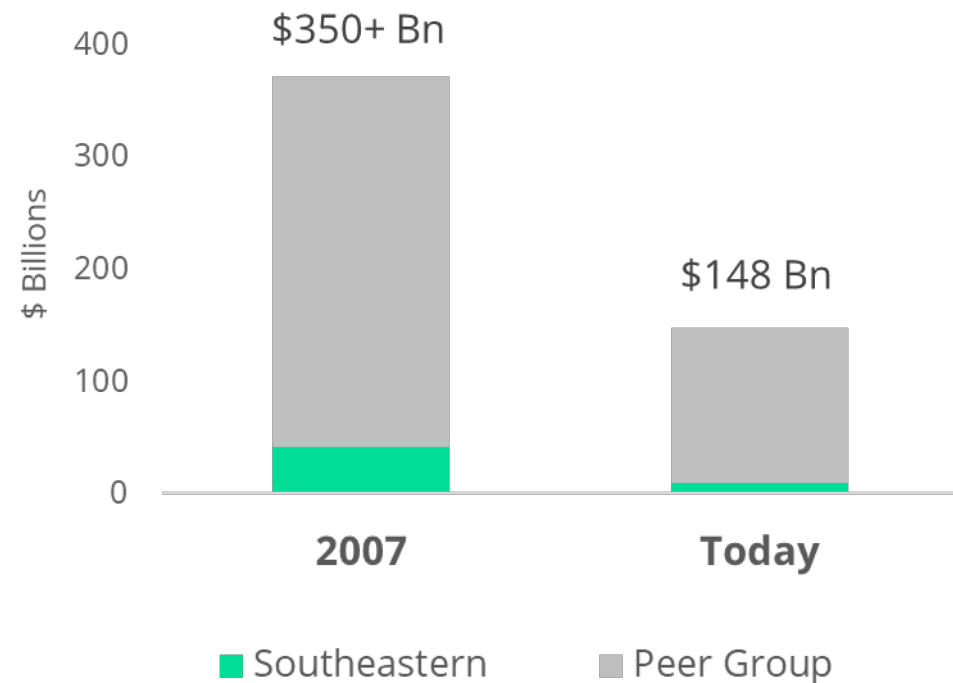
The Fama/French factors are constructed using the 6 value-weight portfolios formed on size and book-to-market. HML (High Minus Low) is the Value vs Growth factor and is the average return on the two value portfolios minus the average return on the two growth portfolios,  $HML = 1/2 (Small\ Value + Big\ Value) - 1/2 (Small\ Growth + Big\ Growth)$ .

# Quantifying Allocator Consensus



We have tracked holdings of a peer group of value managers over time, and the group's AUM decline is telling

## Total AUM of Value Managers Tracked



- *Four* of the *fifteen* managers we tracked in 2007 are now *closed* ...

...but *Southeastern* in *2021* had its *best net flows* year since *2008*

Source: Manager websites and/or filings

# The Great Value Divide

We believe that there has been a split in the value investing world over the last several years



# Sold Too Early?

In hindsight, our discipline required us to sell some companies too soon



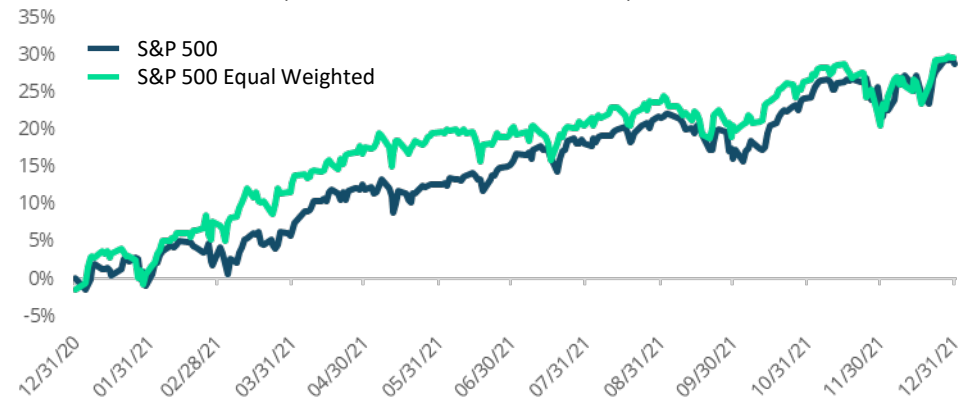


# Narrowing Market

The end of 2021 was again marked by a narrowing of market leadership, with five large tech stocks essentially driving the S&P 500

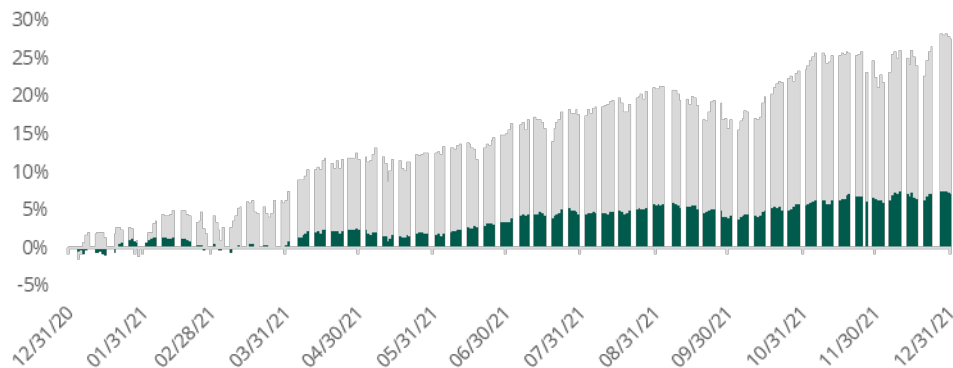
## S&P 500 Index vs. S&P 500 Equal Weighted Index

Cumulative Total Return (1 -Jan-2021 to 31 -Dec-2021)



## Contribution to the Total Return of S&P 500

5 Tech stocks drove a meaningful portion of the S&P 500 Return in 2021



- When the *S&P 500 Equal Weight index outperforms the S&P 500*, it is an indication that many stocks were rising and the *returns are broad based*

	Equal Weight	S&P 500	Difference
1/1/21 to 4/30/21	16.77%	11.84%	+4.93%
5/1/21 to 12/31/21	11.01%	15.08%	-4.07%
Full Year	28.71%	29.63%	-0.92%

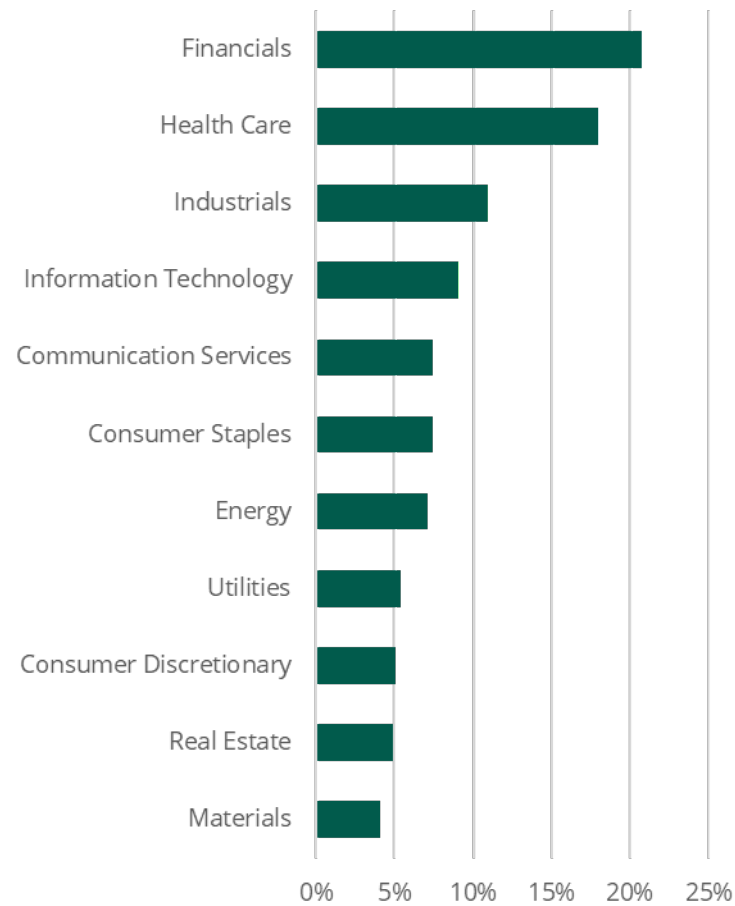
- For the year, 5 tech stocks accounted for approximately 30% of the Total Return of the S&P 500 Index

Five Tech Stocks: Alphabet, Amazon, Apple, Meta (Facebook), and Microsoft  
Source: FactSet

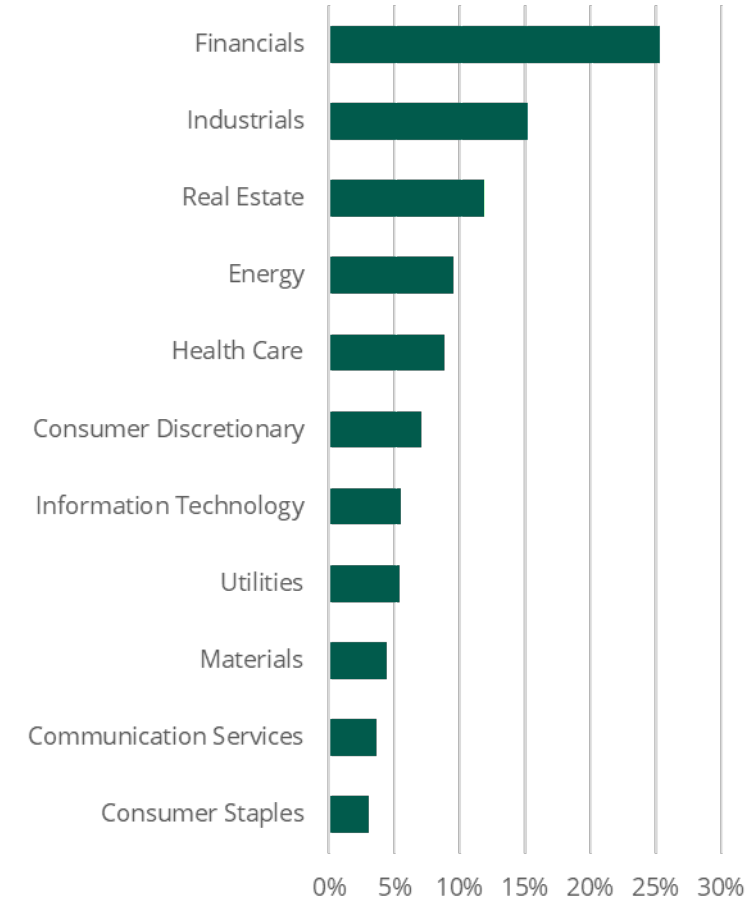
# Value Index Sector Composition



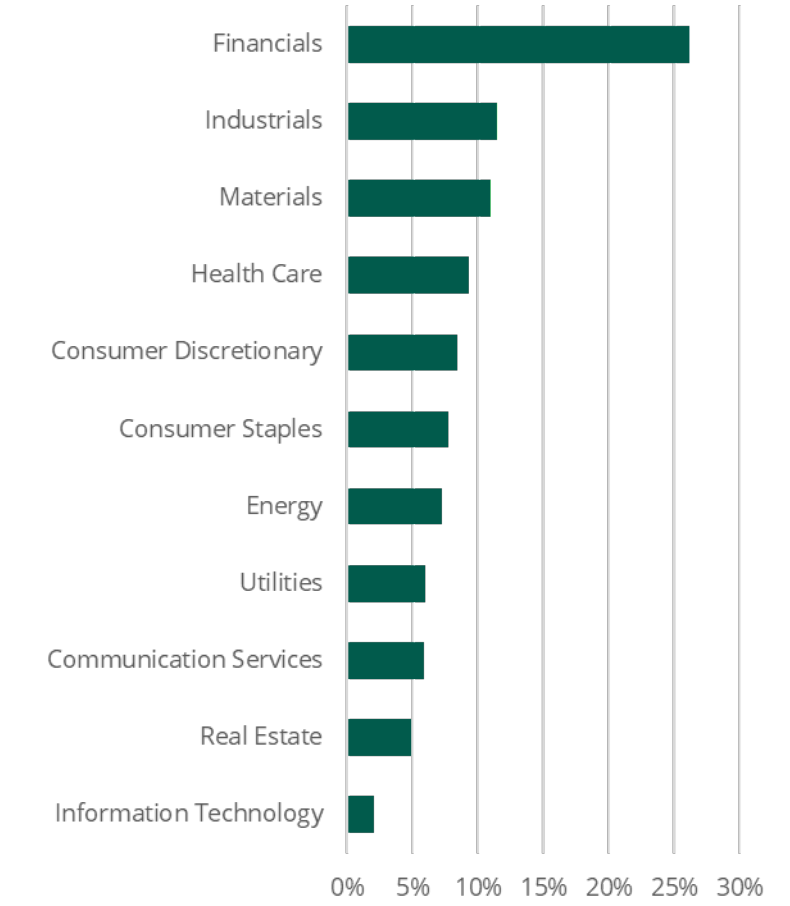
**Large-Cap Value Sector Composition**  
Russell 1000 Value Weights at 3/31/2022



**Small-Cap Value Sector Composition**  
Russell 2000 Value Weights at 3/31/2022



**Non-US Value Sector Composition**  
MSCI EAFE Value Weights at 3/31/2022



Source: FactSet

# Hidden Quality

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The discounted *Price* provides opportunity, but the *Business* and *People* drive our long-term outcome



Every business must meet our quantitative *and* qualitative criteria

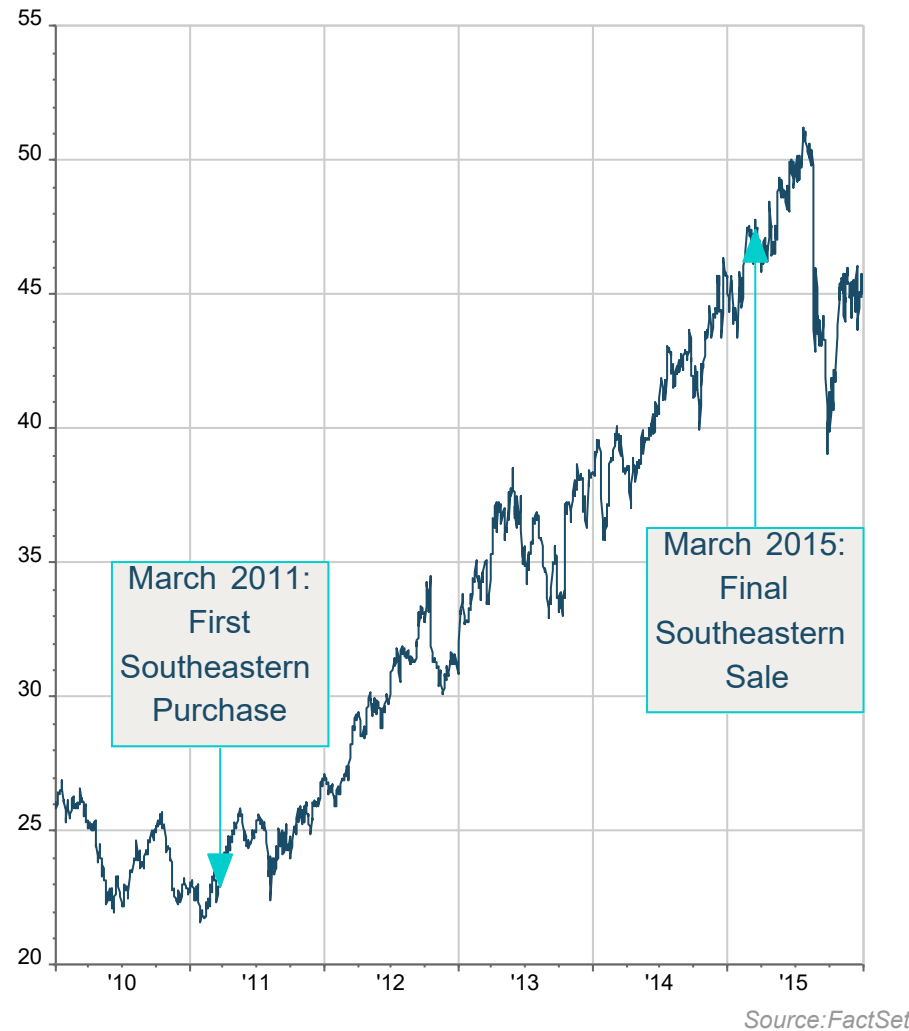
# HATED: Abbott Labs Headlines vs. Reality



## Abbott Labs Closing Price

31-Dec-2009 to 31-Dec-2015

Price (Local Currency)



## Miles White Comments from January 2011 Conference Call:

- “I don’t make the strategic decisions for the company based on transactions the Street might like to see...”
- “While it might be easy for investors to say, “Gee, pure play companies are a lot easier for us to value,” et cetera, that is not what the identity or strategy of this company has been.”
- “I take a longer-term view of the company, rather than a short-term one to two-year or three-year view.”
- “So, while it might be reassuring to investors to break up the company or spin pieces or sell pieces, I think that flies in the face of the overall longer-term view of the company ...that’s what’s allowed us to thrive and do as well as we have over the last 10 to 12 years...”
- “So, while I think you’re right to criticize how well we’ve explained or communicated ... I don’t think the answer is necessarily to separate them or spin them off. I have shown in the past that where I think the situation is right and the circumstances are right, I will do that...”

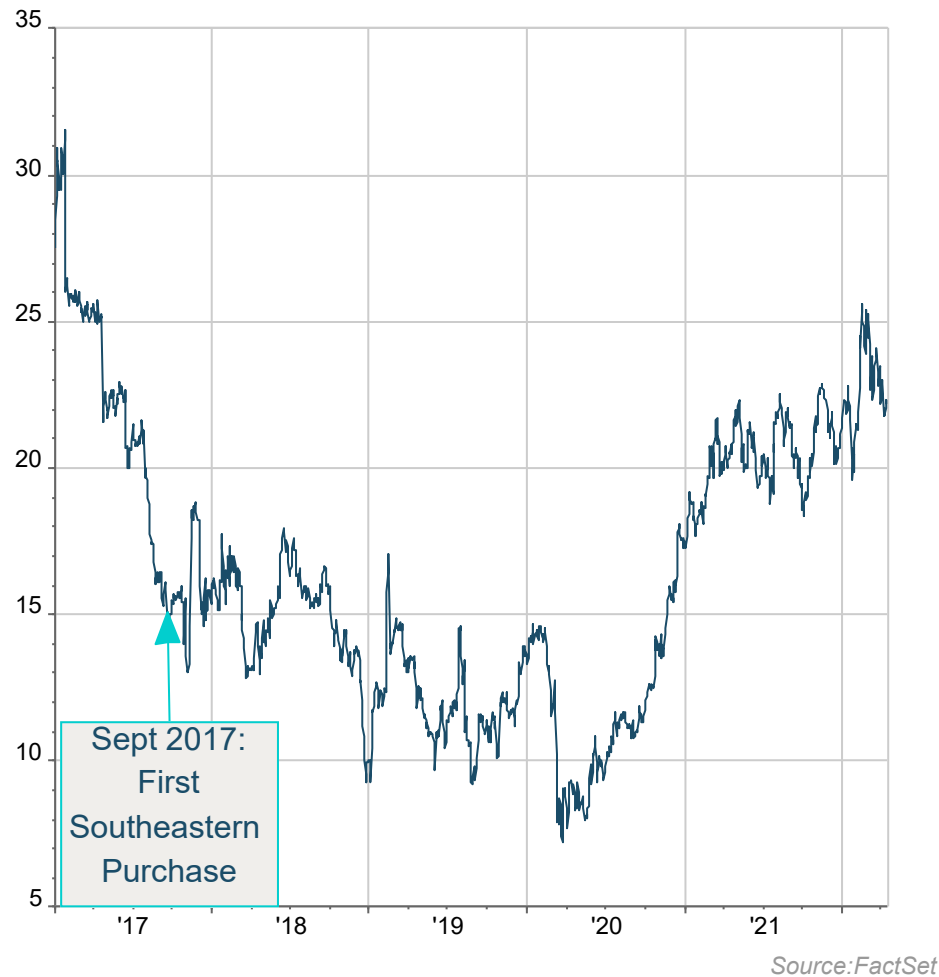
Source: Company Earnings Conference Call

# HATED: Mattel Needed Work

## Mattel Closing Price

30-Dec-2016 to 14-Apr-2022 (Daily)

Price (Local Currency)



Mattel, Inc.



## Lots of Work Ahead

July 2017

As if we needed another datapoint, Mattel's 2Q17 results make it very clear how much work needs to be done at this company. In the US, shipments in every single brand line declined, except for Entertainment which was driven by Cars 3 (which, by the way, is at the low end of expectations); internationally, Barbie grew slightly (1%) and

Mattel Inc

## Still See Value in Brand Equity: Downgrade to Neutral on Risk/Reward



June 2018

### Execution risk makes less compelling risk/reward

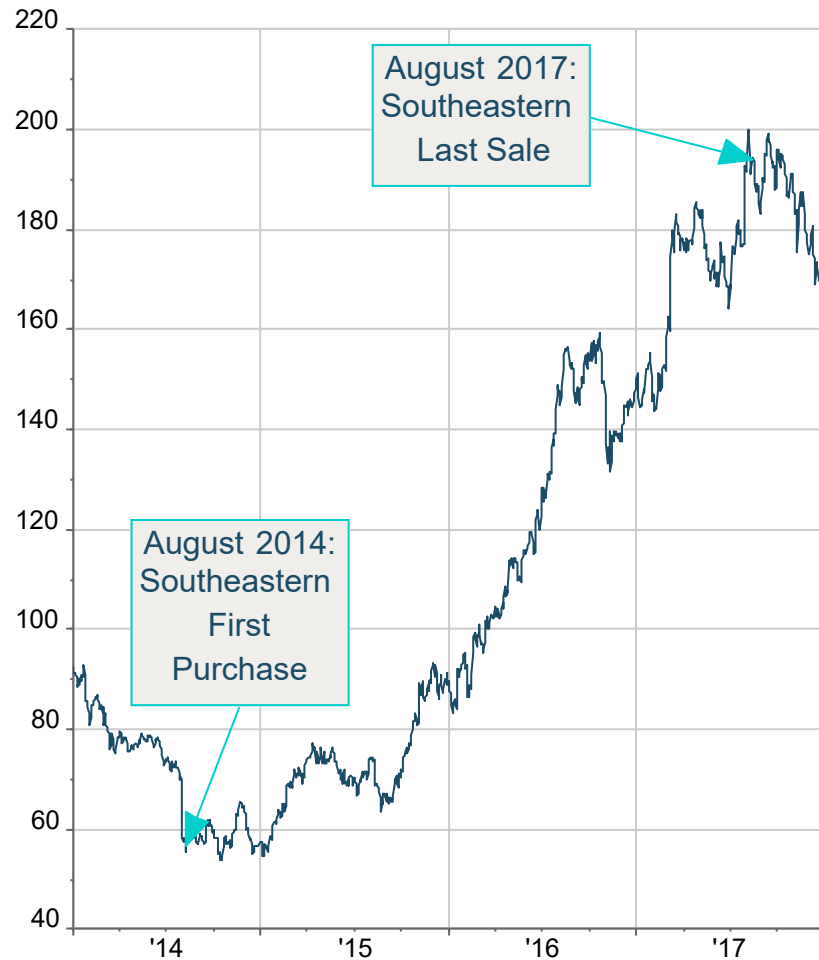
We are downgrading our rating on MAT to Neutral given 35%+ appreciation of the stock from March lows on little change in fundamentals, now pricing in stabilized top line and achievement of announced cost saves, amid heightened execution risk. While

# HATED: adidas Perpetual Disappointment

## adidas Closing Price

31-Dec-2013 to 29-Dec-2017 (Daily)

Price (Local Currency)



Source: FactSet

adidas AG



## What route now for adidas?

March 2015

Guidance for 2015 – announced at the 2014 results – confirms that adidas will miss its Route 2015 EBIT target by c43-46%. While revenue targets will be missed by just c5% ex FX, the main issue was the EBIT margin target of 11% against the 6.5-7.0% indicated now. The investor day on 25-26 March will highlight its 2020 strategy and we believe that to restore management credibility, the group needs to explicitly

## Adidas

Morgan Stanley

## 1st Take: Investor Day First Thoughts - Déjà Vu?

March 2015

Industry View

Stock Rating

**In-Line**

**Underweight**

Adidas has outlined its key objectives for 2020 this morning (the investor day is now underway). Similar to 2010, the focus is on sales and net income acceleration driven by share buybacks but also e-Commerce and product

# IGNORED: We Aren't in the Index



The companies we buy are not on the radar of most analysts and are usually not found in an index

55%

Of U.S Large-Cap Strategy is *NOT* in the *S&P 500*

64%

Of U.S Small-Cap Strategy is *NOT* in the *Russell 2000*

66%

Of Non-US Strategy is *NOT* in the *MSCI EAFE*

Source: Based on holdings at March 31, 2022

# IGNORED: Let's go to Monterrey, Mexico



It was a longer drive than this looks from Cemex to Gruma



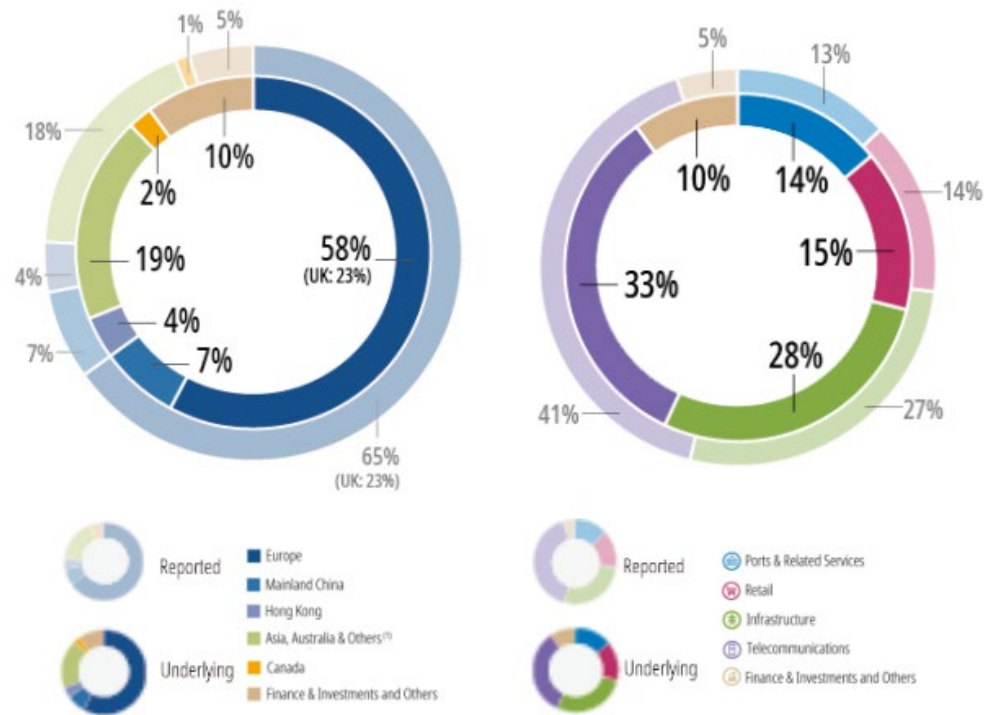


# MISUNDERSTOOD



Usually the company is overly complex, and / or the street just doesn't seem to "get it"

 長江和記實業有限公司  
CK HUTCHISON HOLDINGS LIMITED  
(Incorporated in the Cayman Islands with limited liability)  
Stock code: 1



Source: Company Investor Presentation

**UBS Global Research | 30 March 2022**

**Equities**  
Americas  
Transportation Services  
12-month rating: Buy  
12m price target: US\$310.00  
Price (29 Mar 2022): US\$236.69  
RIC: FDX.N BBO: FDX.US  
Trading data and buy metrics: US\$15.9B-201.0B, US\$64.1B, 27th (COM), 93%

**Our P/E based PT is \$310.... but an SOTP approach points to ~\$400**

We utilize a 13x P/E applied to our CY2023 EPS to derive our \$310 price target. In this note we also provide a sum of the parts framework where analysis of comp groups for Express, Ground, and Freight leads to 8.3x, 14.3x and 13.4x EV/ EBITDA multiples for these business segments. Applying these multiples to our CY2022 EBITDA estimates for the business segments translates to a share price of \$402 for FDX stock. We believe this framework shows that current total company valuation translates to valuation of the three businesses which is well below comps to these segments.

**Valuation: execution = better**

	05/19	05/20	05/21	05/22E	05/23E	05/24E	05/25E	05/26E
Revenues (US\$m)	69,693	69,217	83,959	94,274	99,468	103,925	109,258	115,095
EBIT (US\$m)	5,218	3,122	83,959	7,037	7,761	8,295	8,839	9,456
Net earnings (US\$m)	4,102	2,486	5,000	21,07	22,66	24,75	26,80	29,08
EPS (US\$, diluted) (US\$)	15.51	2.60	3.52	3.87	4.25	4.68	5.15	5.15
Net (debt) / cash	(15,267)	(17,121)	(16,328)	(18,136)	(14,696)	(11,580)	(7,941)	
Profitability/valuation	7.5	4.5	16.8	7.6	7.8	8.0	8.1	8.2
EBIT (US\$m) margin %	15.9	9.1	7.4	17.6	17.9	18.2	18.6	18.6
ROIC (US\$m) %	8.2	7.9	7.9	7.1	6.9	6.4	6.8	6.1
EV/EBITDA (US\$ core) x	13.5	15.5	13.0	11.2	10.4	9.6	8.8	9.1
Equity P/E (US\$) yield %	16.71	14.03	2.7	2.1	4.7	6.8	8.0	2.2
Dividend yield (net) %	1.2	1.8	1.6	1.6	1.8	2.0	2.0	2.2

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# Hated/Ignored/Misunderstood in Action

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Two different but out-of-favor and seemingly volatile companies with two very different outcomes

## VAIL RESORTS®

- ↑ **Business** – Barriers to entry and pricing power
- ▬ **People** – Rob Katz unproven CEO
- ↑ **Price** – Price-to-Value ratio low; EV / EBITDA also low



### Vail Resorts Closing Price:

12/31/2010  
**\$52.04**

12/31/2020  
**\$278.96**

## QUICKSILVER RESOURCES

- ↑ **Business** – Return on incremental capital and hedge commodity volatility
- ↑ **People** – Insider family ownership
- ↑ **Price** – Price-to-Value ratio and EV / EBITDA lower; Rejected bid from private equity



### Quicksilver Closing Price:

12/31/2010  
**\$14.74**

8/16/2016  
**BANKRUPTCY**



# Questions