# Some Brief Notes / Ideas

## *Coronavirus Impact*

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# Quick Notes

- This deck is a “one off” due to the impact of the Coronavirus on the markets in general; this is **not** the “March 2020” deck, I am working on that and will finish up this week on a lengthier deck.
- As of writing this, S&P 500 *down* 23% MTD / 30% YTD
- Many investors who focus on earnings potential, subscriber trends, recurring revenue, and so on….are now basically asking “can this company survive?”
- To me, this all boils down to:
    - Which companies have limited debt or truly high recurring business
    - Which companies can access the debt markets currently, at favorable rates
    - Which companies (if can survive), will continue to thrive due to true advantages, once this settles (even if it takes some time)
- Reality is – a majority of all analysis comes down to “when will things get back to semi-normal, businesses can re-open, and the economy can avoid a severe recession/ depression”
- If this goes on for too long, the damage done to both businesses and people (income, balance sheet, net worth, real estate prices due to unemployment, etc.) will take much longer than people expect.
- I don’t have an answer to this:
    - “shutting down the US for 30 days” – yes this slows the spreading, slows down the potential impact on our hospitals/ healthcare system, but it really is meant to buy more time
    - “massive stimulus direct to the people” – maybe lower income people can afford necessities, pay bills, but how long is this sustainable? And what about their jobs?
    - “Just re-open businesses to those of lower risks” – would still have to quarantine higher age, those of greater risks, but then opening up for greater likelihood those of lower risks will get it + higher potential it is a more severe strain

# Some Ideas for now….

- BRK A/B
- SBUX
- GOOG
- CMCSA
- CHTR

*Do your own work….*

BERKSHIRE HATHAWAY INC.

# Berkshire Hathaway A/B (BRK.B)

- BRK Investment Portfolio
  - Been selling Wells Fargo (owned 204m E2006, added ~270m+ shares from 2007-2017, was 500m shares E2016, now 323m) almost every quarter
  - WB was adding to WFC from mid-$30/share in 2012 up to low $50s in 2015
- Buffett "errors of commission" – *will he pass up this opportunity, or invest it poorly?*
  - Kraft Heinz – owns 26.6%
  - Precision Castparts
  - International Business Machines (IBM)
- YE 2019 BRK had $143.7bn in cash, US T-Bills, and fixed maturity securities inside insurance (excludes cash held at other operating businesses)
  - WB stated a $20bn minimum floor (doubt he would get even close to this)
  - My guess is he has about $75bn +/- he would deploy if he truly wanted to
- Investment portfolio fell from $248bn YR19 to currently $154bn
  - Deferred tax liability is now about $9.0bn
  - 26 of top 43 holdings are at a loss on the cost basis
- Assuming the carnage of the investment portfolio, unless you think there was some permanent impairments in the investments (airlines $4.3bn current mkt value / $8.05bn cost basis), the portfolio should grow at higher rates going forward now vs. YE 2019

# Berkshire Hathaway A/B (BRK.B)

- Well capitalized (no existential threat issues as of now)
- $120bn in excess capital
- Assuming 50% reduction in operating earnings + similar interest income + dividend income = $7/B-share EPS
- BRK is cheap – ~22x recession forward EPS excluding any value to:
  - Investment portfolio ($63/ B-share)
  - Potential for cash to be invested
  - Any cash earned in 2020
  - Any share repurchases
- Assigning investment portfolio value of $63/B-share to valuation, remaining BRK valued at <14x 2020 EPS with a 50% reduction in operating earnings YoY
- Book value at YE2019 = $174
- Book value estimate – now = **~ $145/ B share**
- Price = $160
- P/ BVPS = 1.10x

# Berkshire Hathaway A/B (BRK.B)

- Summary:
  - BRK seems pretty cheap at $160/share, whether on a P/BV, or operating earnings cash flow yield using major earnings hit
  - Diversified business operations should help buffer risks
  - The current business valuation is attractive
  - Potential upside with deployment of capital – large buybacks, acquiring businesses, preferred deals
  - BRK repurchased $5.0bn in stock in 2019, as high as $221.67/B-share

TM

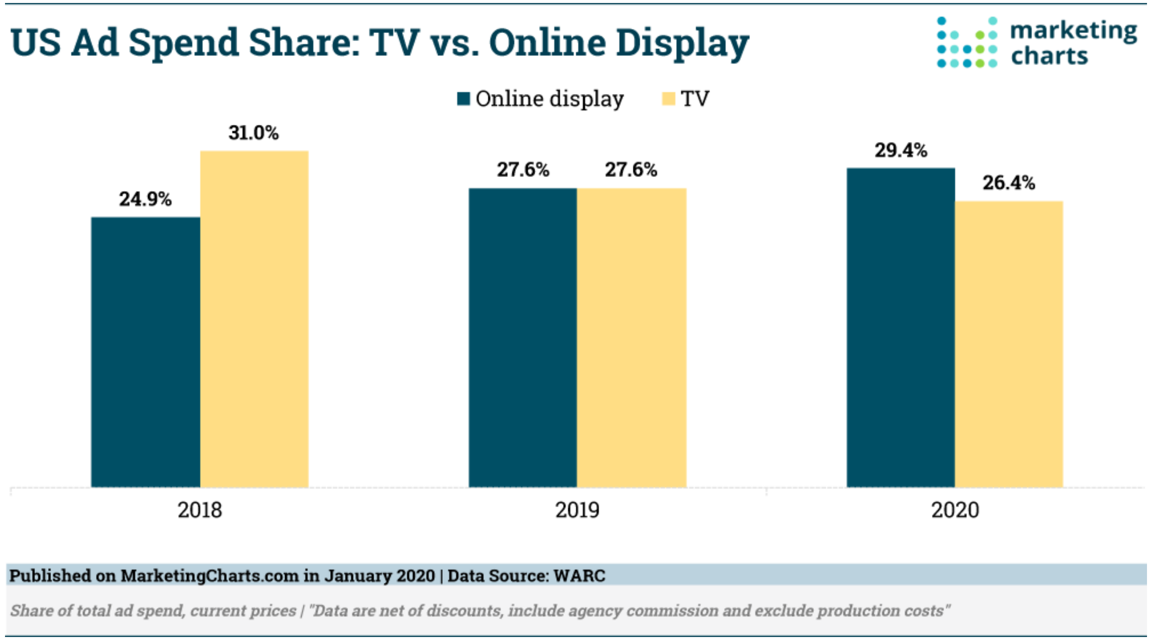
# Starbucks (SBUX)

- Current price $56/share, down 44% from 52wk highs, -36% YTD
- Coronavirus impact
  - Many cities on lockdown, people aren't traveling, many aren't going to work
  - 3/20 – SBUX closed in-store access to cafes, now drive thru only. Only some in-store only open with exceptions
  - ~50% of SBUX stores are drive thru
  - Committed to paying all store employees for 30 days, raised hourly compensation by $3/hr. for shifts worked 3/21 – 4/19
  - New store development halted
- Thoughts
  - If drive thru's remain open as of now, and many restaurants/ alternatives are closing, SBUX may get additional spend due to limited options / people feeling safer with a drive thu option, people getting tired of eating at home
- May not be the most compelling opportunity, but ~ 16x 2021 EPS, with historical P/E around 25x +

Alphabet

# Alphabet Inc (GOOG)

- Current price $1,060/sh., -32% from 52wk high, -23% YTD
- Thoughts:
  - With more people staying home, combined with no sports on TV, more opportunity for time spent on smart phones, devices, and the computer
  - Many school lessons are done with YouTube videos
  - Will this shift advertising more in favor of digital vs. other means
  - Advertising budgets will decline as companies hoard cash, try to survive
  - Companies will likely monitor their expenses closer in the near future, looking to justify their marketing budgets more
- Spending on internet ads – YouTube, Google, Facebook, etc. – expected to make up more than 50% of all global spend in 2020
- Over 83% of GOOG revenues came from display of ads in 2019



# Alphabet Inc (GOOG)

- Balance sheet:
  - Liabilities
    - \$5.3bn in LT debt obligations
    - \$5.6bn purchase obligations that are non-cancelable
  - Assets
    - \$18.5bn in cash
    - \$51bn in government bonds + \$27bn in Corporate debt + \$20bn in MBS / ABS (of the \$98bn, \$83bn due in < 5 years)
    - \$3.3bn in stocks + \$11.3bn private businesses
  - Total = \$105.6bn in net cash & fixed securities, or \$151/per share net
- Coronavirus risks – GOOG generated \$135bn in advertising revenues in 2019. Advertising budgets will definitely decline in a large global recession
  - In 2008 aftermath, advertising spend dropped 13% in US (however, online only dropped by 2%)
- Remaining GOOG business valued at ~ \$900/share
- Assuming a **30%** reduction in earnings from 2019 #'s, core-GOOG is trading at ~ 25x EPS (after cash/sh. reduction)

COMCAST

# Comcast Corp. (CMCSA)

- At $33/share, down 30% from 52wk highs, -26% YTD
- Coronavirus impact:
  - IOC postponed Olympics. NBC took in $1.25bn in ad receipts so far, a huge event for Comcast
  - Comcast was pairing a large release of its new streaming service – Peacock – to right before Olympics, to drive downloads / usage
  - All Universal theme parks are closed (Orlando parks as of a week ago)
  - No sports – hurts ad revenue, will likely see pick up in pay TV subscriber losses
  - Film production halted, going DTC with Trolls: World Tour on April $10^{th}$, pushed back F9 to 2021
  - Major issues for CMCSA are around NBCUniversal network, theme parks, as well as SKY
- Alternate view:
  - Cord cutting is good for core cable business, although ARPU declines, margins increase, FCFF increases as well
  - With most people / children at home, fixed broadband usage is a true necessity right now
  - Programming expenses were expected to increase 2H 2019; assume this will subside quite a bit now with no spots, cord cutting picking up steam, and Olympics up the air

# Comcast Corp. (CMCSA)

- At $33/share, Comcast is:
  - Trading at < 19x cable business only 2019 post-tax FCFF, which is growing EBITDA mid-single digits and FCFF high single digits %
  - The cable business represents 80% of CMCSA total EBITDA – Capex
  - You could argue that you are buying the core cable operation at $33/share and getting NBCU + SKY for $0
  - Cord cutting is net positive for the cable business
- $96bn in net debt, but is leveraged only 4.1x using cable EBITDA alone, which will be much stickier given the importance of fixed broadband right now

Charter
COMMUNICATIONS

# Charter Communications (CHTR)

- At $380/share, -30% from 52 wk highs, -21% YTD
  - Trading at 16.2x 2019 FCFE
- ~$76bn in net debt, interest costs around $4bn/year
  - CHTR closed on 10 year notes, $1.65bn at 4.5% on 2/18/2020
- Overall business should hold up quite well for time being – similar to CMCSA cable, fixed broadband is a necessity right now
  - VZ said wireless data growth was flat, as usage offloaded to Wi-Fi
  - More interactive/ social gaming = need for higher speeds, more bandwidth
- I believe some of the CHTR decline is due to their massive weighting of hedge fund ownership, and subsequent selling due to overall market declines
- Cord cutting is a net positive for cable operators, improves margins and FCFF per sub
- Minor risk is share buybacks are halted to preserve cash, thus can't advantage of the opportunity at attractive prices

# Closing Notes

- I'm currently working through another deck…will try to get that out this week
- Do your own work
- If you have any questions about the companies mentioned, please contact me:
  - findmevalue@gmail.com
  - Twitter - @find_me_value