Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #10 | December 2021

"One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100."
– Charlie Munger

In This Issue:

REFLECTING ON YEAR 1 (ISH):

It's been ten months since I started this journey. Back in February I launched the free version of Watchlist Investing on Substack. In March I launched a Deep Dives version managed using a combination of GoDaddy, MailChimp, and MoonClerk. Both versions continue to grow.

Substack: As of December 14, 2021, over 900 people have chosen to sign up for the free weekly newsletter featuring excerpts from the Deep Dives, Berkshire/Buffett commentary and videos, and some of my random musings.

Deep Dives: As of December 14, 2021, there are 53 paid subscribers to this newsletter, including public company executives, investment managers, research analysts, CFAs, students, and teachers.

Some joined at the original price of $99/year (which will be grandfathered), and others paid the current price of $199. Even at the current price, which is less than $17/month, I believe I'm providing a margin of value over the nominal cost. The higher price point helps me better cover the costs of running the site and get me closer to being able to devote additional resources to this project.

My goal for 2022 is to add another 50 subscribers. That would be about one a week or roughly four per month. **I'd be very grateful for your help in spreading the word. Unlike the regular issues, which should be kept as closely guarded secrets, I'm making this issue public so please feel free to share it widely. If you do refer a friend and they sign up for a paid subscription, let me know so I can send you a small gift of appreciation.**

I'm very grateful to *all* subscribers to Watchlist Investing. I appreciate the feedback, comments, and questions you've sent me along the way. I'm really looking forward to what the new year will bring!

Here's a summary of what was covered this year. Additionally, about a dozen companies were included in the Russell 3000 project. Also, a few other names came out of the Deep Dives and onto the Watchlist, such as HEINY from the SAM writeup and SAIA from looking at ODFL.

2021 Summary	**Deep Dives**	**Quick Looks**
March	HIFS	AAON
April	CACC	MCEM
May		MKC IFF GENC
June	BSVN	PLBC
July	Russell 3000 Project	
August	WM RSG WCN	
September	SAM	
October	ODFL	
November	FAST	
December		ZWC1
Total	**9**	**7**
Industry Count		
Banking	2	1
Waste management	3	
Alcoholic beverages	1	1
Logistics	1	
Industrial Distributing	1	
Subprime Auto	1	
Building products		2
Foods/Seasonings		2
Heavy manufacturing		1

IDEAS FOR 2022:

Recently I've begun reaching out to paid subscribers for feedback on how to make this newsletter even better. Here are some ideas I'm mulling over for 2022, including a list of companies I'm considering researching in more depth:

- ***Community:*** Several of you have expressed a desire for a place of community among subscribers. That included a few newer investors who subscribed so they could follow my process and logic of analyzing companies. The problem is I'm one person and my time is limited. I'm mulling the idea of starting a Discord server, which would allow a private group of subscribers a place to interact with one another. That would allow subscribers to pose questions, kick around ideas, discuss ideas from the Watchlist, and help newer students of value investing learn from other people. If you have any ideas how to best go about building this community, please let me know at watchlistinvesting@gmail.com.

- ***Less Overvalued Companies:*** All but perhaps two companies covered so far have been overvalued, in my view. Some of you expressed a desire to see Deep Dives on companies closer to their intrinsic value.

  This is a tough one. On the one hand I can sympathize with wanting to find undervalued businesses. Why pay for a newsletter that doesn't give you actionable information?

  I visualize it using a modified version of Aesop's bird in the bush metaphor. I'm searching for gold (great businesses). If I find a beautiful shining nugget that's visible but embedded in hard stone, should I stop and apply effort now knowing there's a reasonable chance I'll be rewarded sometime in the future? Or should I pass and continue searching for another nugget easier to extract?

  Perhaps a way I can reconcile this conundrum is to do Deep Dives on companies that appear at first glance to be selling closer to intrinsic value. For example, should I have looked at waste management companies selling at 5x their intrinsic value at the expense of looking at another company? I don't know but I'll continue to think about this.

  Looking at the 52 week high/low table below, there's simply no way the Watchlist companies are in an efficient market. Human nature virtually guarantees we'll be able to buy more of these good businesses in due course.

Company Name	52-Week High	52-Week Low	High / Low
AAON, Inc.	$84	$59	**41.49%**
Berkshire Hathaway	$296	$221	**33.62%**
Hingham Institution for Savings	$406	$211	**92.72%**
Monarch Cement	$135	$68	**98.53%**
International Flavors and Fragrances	$157	$104	**51.13%**
McCormick	$99	$78	**26.91%**
Bank7	$27	$12	**126.01%**
Plumas Bancorp	$40	$23	**74.15%**
Auburn Bancorp	$50	$32	**58.89%**
Waste Management	$168	$109	**54.01%**
Republic Services	$146	$89	**64.73%**
Waste Connections	$139	$97	**43.08%**
Boston Beer Company	$1,350	$435	**210.25%**
Constellation Brands	$245	$206	**18.78%**
Anheuser-Busch InBev	$80	$53	**50.52%**
Heineken	$62	$49	**26.88%**
Old Dominion Freight Line	$374	$189	**97.19%**
Saia, Inc.	$366	$171	**113.54%**
Fastenal	$64	$43	**48.63%**

- ***Model Portfolio:*** The idea here would be to provide insights into constructing a portfolio once you've done the work of identifying good businesses. I've toyed with the idea of starting a new real-money cash account and managing it starting Jan 1, 2022. I'd track trades and provide rationales for why/how I'm sizing positions, as well as other portfolio-management-related discussion items. I worry about two things: One: regulatory issues given I manage money professionally; Two: introducing bias to my investing process by talking about ideas publicly.

- ***Checklist:*** Checklists are incredibly helpful tools in all walks of life, including investing. The idea would be to build a checklist item by item and walk through the reasons why it was added. It could also include examples of failures to heed the item to drive the point home. This might be something I can flesh out on Substack.

- ***Smaller Capitalization Stocks:*** I'd like to find more companies in the sub $5bn or even sub $1bn range, if possible.

- ***Potential Deep Dives in 2022:*** Here's a list of companies I'm considering investigating further next year, in alphabetical order. What companies do you think should be on the list?
  - A.G. BARR p.l.c.
  - Allegion, PLC
  - AutoZone
  - Avery Dennison Corporation
  - Crown Holdings
  - Exor
  - Heineken
  - Insteel Industries, Inc.
  - Jack Henry
  - Markel
  - Monarch Cement
  - National Beverage
  - Rotork, plc
  - Sherwin Williams
  - Toro

  As something of an aside here, should I cover Berkshire Hathaway? I feel like it's an obvious analysis I should do given I've written a book on the company. Not to mention I've put it on the Watchlist without discussing it in an issue. Yet, Berkshire is covered a lot of places and I've done a few podcasts that have touched on how I look at valuing BRK. It probably makes sense for completeness for me to do a Deep Dive on Berkshire.

Watchlist

Following the regular update table below are several updates on Watchlist companies, organized by issue date. As time goes on, and as some of the Watchlist companies become attractively priced (fingers crossed), I may include updates in regular issues. I'll let the news and valuations dictate the timing.

As of December 14, 2021

WATCHLIST Count: 19

Company Name	Industry	Ticker	Current Price	Market Cap	See Issue #
AAON, Inc.	Building Products	AAON	$81	$4,227,796,307	1
Berkshire Hathaway	Conglomerate	BRK.B	$293	$652,457,178,688	1
Hingham Institution for Savings	Banking	HIFS	$389	$832,322,011	1
Monarch Cement	Building Products	MCEM	$110	$288,680,700	2
International Flavors and Fragrances	Foods/Seasonings	IFF	$147	$37,245,304,272	3
McCormick	Foods/Seasonings	MKC	$93	$24,804,609,777	3
Bank7	Banking	BSVN	$22	$199,571,196	4
Plumas Bancorp	Banking	PLBC	$32	$186,323,400	4
Auburn Bancorp	Banking	AUBN	$32	$113,167,114	5
Waste Management	Waste Management	WM	$163	$68,382,166,071	6
Republic Services	Waste Management	RSG	$136	$43,080,486,135	6
Waste Connections	Waste Management	WCN	$131	$34,244,159,136	6
Boston Beer Company	Alcoholic beverages	SAM	$526	$6,487,519,892	7
Constellation Brands	Alcoholic beverages	STZ	$236	$43,851,826,248	7
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	$57	$101,151,481,089	7
Heineken	Alcoholic beverages	HEINY	$52	$53,003,757,318	7
Old Dominion Freight Line	Logistics	ODFL	$353	$40,659,874,042	8
Saia, Inc.	Logistics	SAIA	$322	$8,471,427,635	8
Fastenal	Industrial Distributing	FAST	$64	$36,494,111,823	9

Note: I've decided to remove the conditional highlighting from the Watchlist table. It probably makes sense for each investor to have his/her own Watchlist tied to intrinsic values, not price at last mention in this newsletter. If you'd like to make a copy of the Google Sheet or download it for your own use, please click on the table above or the link below.

Click here to see the latest Watchlist and Suspect List on Google Sheets.

ISSUE #1: MARCH 2021

Hingham Institution for Savings (Ticker: HIFS | Disclosure: Long)

Since inaugurating this newsletter with a Deep Dive on HIFS, shares have gone on a tear. The company's market cap went from $600m in March to $830m (+38%) as of December 14th. While pricey at 2.4x book value, the valuation is not extreme for a bank of HIFS's caliber.

HIFS reported core net income of $41.5m through the first nine months of 2021. Of note this was significantly lower than its $50.8m of GAAP net income, which includes gains on securities and on the sale of assets. Management has continually focused on underlying business progress by highlighting core net income even when it means reporting lower adjusted earnings.

Those earnings reflect a core return on assets of 1.90% and core ROE of 17.3%. Importantly, these numbers do not consider any gains noted above. The bank has benefitted from continued strong credit quality and a very favorable interest rate environment that has seen interest expense drop by two-thirds year-over-year.

The two key numbers that matter when looking at a bank are its efficiency ratio and loan losses. HIFS's efficiency ratio remains the envy of its peers at 21.6%. I wouldn't be surprised to see it drop into the teens in 2022. As of the end of Q3 the bank had 0.01% non-performing loans/assets. Net charge-offs—what really matter over time—amounted to just $1,000 (no zeros omitted). Granted, credit quality at this point in the cycle is mostly good all around, but I'd expect HIFS's long track record of superior credit quality to continue.

Strategically, HIFS has continued to shrink its branch count. This year it sold its Weymouth and South Hingham branches (Weymouth was closed in 2020), and just closed its Norwell/Hanover branch in September but retained ownership of the real estate. On top of the costs of maintaining these real estate assets, HIFS reallocated personnel expense from its branches to its CRE and specialized deposit groups. Growth in the latter category was necessary to support burgeoning operations which now span coast to coast.

In addition to its Washington, D.C. operations in Georgetown, HIFS now has a presence on the West Coast. In the fourth quarter the bank closed its first loan in the San Francisco Bay Area to an established multi-family developer. This new market is being served by "fly-in", meaning it has no physical presence like in Washington, D.C.

Lastly, HIFS increased its investment in Founders Bank during the year. It now has a $3.5m subordinated debt investment in the bank on top of its $1m equity investment. Founders Bank is not yet profitable but just crossed the $125m asset mark as of Q3.

As noted at the outset, the current price tag for HIFS is not unreasonable. The bank probably has a normalized earning power of around $50m to $55m after tax. At a current market cap of $830m that's around a 6% return without considering the effects of growth. Patience will likely bring a more favorable entry point.

AAON, Inc. (Ticker: AAON | Disclosure: None)

I just don't get the market enthusiasm for AAON. Since concluding the company was overvalued back in March shares have continued to rise. Today's market cap of $4.2bn is 5% higher than eight months ago. Sure, business results are good. But unless the company is sitting on a pile of gold, I don't see how investors paying today's prices get anything but disappointment from AAON shares going forward.

ISSUE #2: APRIL 2021

Credit Acceptance Corp. (Ticker: CACC | Disclosure: None)

Careful readers will notice the conspicuous absence of CACC from the Watchlist. That's because I covered it as a Deep Dive but didn't put it on the list. After researching the company thoroughly, I concluded I didn't have enough conviction. I maintain that stance today.

CACC has big fans on either side of the trade. Longs point to the company's history of strong returns on capital, good growth, and value-add capital allocation practices. A well respected value investor sits on CACC's board of directors.

Those on the short side see a company taking advantage of its customers. They highlight the record numbers of foreclosures lawsuits filed against the company.

Since writing about CACC in April, its market cap has risen from $7.1bn to $9.4bn as of December 14th. Clearly someone is wrong about their trade. There's too much murkiness for me to have an opinion either way.

Monarch Cement Co. (Ticker: MCEM | Disclosure: None)

MCEM is a nanocap cement company I covered as a Quick Look in April. It had a $388m market cap then, which has since risen to $424m as of December 14, 2021. The company's balance sheet remains pristine with surplus cash and investments. MCEM would appear in excellent position to benefit from US investments in infrastructure.

ISSUE #3: MAY 2021

McCormick & Co. (Ticker: MKC | Disclosure: None)
International Flavorings & Fragrances (Ticker: IFF | Disclosure: None)

There's not too much to get excited about with MKC or IFF, two Quick Looks from May. Both appear to remain meaningfully overvalued. MKC traded at a market cap of $24bn in May and stands at $25bn as of December 14, 2021. Likewise with IFF, which was a $36bn market cap in May and $37bn today.

Gencor Industries, Inc. (Ticker: GENC | Disclosure: None)

GENC is another Quick Look from May. Back then it traded at a market cap of $139m. Today shares imply a price tag of $165m. As a nanocap company tied to road construction the company will likely benefit from additional transportation spending. I still have reservations about capital allocation. This *appears* a solidly financed company but *may* be a value trap even at 1x book value. Tread carefully.

ISSUE #4: June 2021

Bank7 Corp. (Ticker: BSVN | Disclosure: None)

Shares of BSVN have appreciated 25%, from a market cap of $160m to $200m as of December 14, 2021, implying a price/book of 1.6x. As I noted in my Deep Dive analysis in June, BSVN probably deserves a premium valuation given its strong ~2.0% ROA driven by mid-30s efficiency ratio and good credit quality.

In October, BSVN announced an agreement to acquire Watonga Bancshares, the holding company of Cornerstone Bank, for $32m cash. The deal is at 1.41x tangible BV and a 4.6% premium to core deposits. Deposits, and a expansion to Western Oklahoma City are the strategic rationale for the acquisition.

BSVN – WBI Presentation

Plumas Bancorp (Ticker: PLBC | Disclosure: None)

Shares of Quick Look PLBC have appreciated 20% since covering it in June. Its market cap then was $154m then and stands at $186m today. On July 1, PLBC acquired Feather River Bancorp. Still, the bank reported strong ROA of 1.7% for the quarter. Shares trade at 1.6x book.

ISSUE #5: July 2021

Auburn National Bancorp (Ticker: AUBN | Disclosure: None)

The July issue featured many companies from the Russell 3000 project, which looked at companies potentially exiting the index. I liked AUBN enough to add it to the Watchlist, although no Deep Dive was completed. Since late June the market cap of AUBN has slid about 10% from $125m to $112m as of December 14, 2021. The bank has repurchased $1.3m worth of its own shares year-to-date. AUBN shares currenly trade at 1.1x book value.

ISSUE #6: August 2021

Waste Management (Ticker: WM | Disclosure: None)
Republic Services (Ticker: RSG | Disclosure: None)
Waste Connections (Ticker: WCN | Disclosure: None)

The August issue featured a deep dive into the major players in the US waste management industry. I liked each of the three businesses but found them all about 5x overvalued. That situation hasn't changed, with WM shares up 11%, RSG up 15%, and WCN up 8% since looking at them. Perhaps someday shares of these consistent earners will fall into reasonable range.

ISSUE #7: September 2021

Boston Beer Co. (Ticker: SAM | Disclosure: Long)

We finally hit paydirt in September with SAM. Shares had slid 60% from $1,300 to $560, which prompted me to take a look and ultimately take a position. Since then shares pulled back another 20% to $445, leaving them down about two-thirds from the peak, before rising to $525 on December 14. I used the pullback to add to my position, reasoning the company's basic advantages were unchanged from September.

So what caused the most recent pullback? Not unexpectedly, SAM announced a slowdown in hard selter had cost it $102m in the form of inventory costs, destruction costs, contract termination costs, and impairment charges. Factoring in indirect costs and the total impact to the bottom line was $133m, which resulted in a loss for the quarter.

As management noted on the Q3 conference call, they made a mistake in misjudging demand for hard selzter, but were unapologetic. They'd rather be wrong and incur some write-off's than miss an opportunity to gain market share and build the brand. It was a bet that went wrong but one I sense they'd be willing to make again for the sake of the brand. I like the fact that they decided to destroy unsold inventory rather than weaken the brand by flooding the market with big discounts.

Despite the slowdown in hard seltzer, volumes were up 11% compared to the 3Q2020. YTD depletions were up 24%, shipments up 30%, and revenues increased 34%. The company estimates 2022 volumes will increase +/- 10%, which would be a decline from historical performance.

Even still, shares are being priced as if the company has suffered a permanent impairment in its earning power and appears to be heavily discounting its growth prospects. In Q3 SAM signed agreements with Beam Suntory to develop a flavored malt beverage under the Jim Beam name, and with Pepsi to develop Hard Mountain Dew.

ISSUE #8: October 2021

Old Dominion Freight Line (Ticker: ODFL | Disclosure: None)

It hasn't been very long since ODFL joined the Watchlist. Yet shares are up by 23% to $356 as of December 14, 2021. Such a jump seems overdone even considering the huge tailwind the industry is currently enjoying with tight capacity and resultant pricing power.

ISSUE #9: November 2021

Fastenal (Ticker: FAST | Disclosure: None)

Ditto with FAST. Not much time since the writeup. Shares are up about 8% to $63 since writing about the company last month.

BRUCE GREENWALD VALUATION METHOD

I've received a few comments on the valuation methodology used beginning in the September issue to value SAM, ODFL (October), and FAST (November). I chose it because I needed a framework to look at faster-growing companies but dislike using DCF models (insert Charlie Munger's raisins comment here …). The methodology comes from Bruce Greenwald's *Value Investing: From Graham to Buffett and Beyond, 2nd ed.*

Bruce Greenwald is one of my favorite value investors. Greenwald long taught the course at Columbia Business School that Benjamin Graham made famous (and which Buffett took during his time there). Greenwald's former students include Todd Combs and LiLu. He's also a practitioner. He's an advisor to First Eagle Investment Management.

Greenwald's approach to valuing growth stocks is to break the valuation into component parts:

1. Cash return on current earnings power
2. Organic growth
3. Active investment growth

The exercise doesn't come up with a precise figure for value. Rather it provides a return that can be compared to other investment opportunities.

I'll walk through how I approached FAST using the annotated table below:

1. Find the current market value of the company.

2. Determine if current revenues and margins reflect what the company could sustainably earn over a cycle.

3. Estimate the longer-term tax rate and find NOPAT.

4. Estimate how much cash is likely to be returned via buybacks and dividends. What's leftover is available for investment.

5. Estimate how much growth is likely to come from organic GDP-driven "basic" growth. Translate the underlying business return to account for current valuation.

6. Determine the value creation of the remaining cash management has to invest.

Step	Fastenal - Valuation (as of Nov. '21)				Notes
1	Share price	$58			
1	Shares out (millions)	576			
1	Net debt	$404			Includes lease liab.
1	Enterprise value ($mil)	$32,986		**% EV**	
2	Sustainable revenues	$5,837			TTM Q2 '21 revenues
2	Margin	20.1%			Equal to 5-yr avg.
2	EBIT	$1,173			
3	Tax rate	25%			Assumed higher long-run rate
3	NOPAT	$880			
4	***Cash return***			***2.0%***	
4	Cash return (buyback + div)	$660	75%		Actual last 5- and 10-year average
	$ Available for investment	$220			
5	***Organic growth return***			***1.2%***	
5	Organic growth	3.0%			Growth at GDP
5	Adjustment for current IV/MV[1]	2.5			$13bn = 10% return
5	Incremental revenues	$175			
5	Capital required per $1 rev.	$0.55			
5	Capital req'd for organic growth	$96			
	$ Available for active	$124			
6	***Active reinvestment return***			***0.7%***	
6	Value creation factor	2.0			
6	Active value creation	$247			
	Total return			**3.9%**	

Note: The 1.2% comes from the 3% organic growth divided by the valuation factor, in this case 2.5. See footnote below.

1. Adjusts for an assumed required 10% rate of return. I.e. if intrinsic value = market value the whole organic growth return would be realized. In an overvalued scenario the underlying company return does not translate to a return to the investor.

1. *Enterprise value:* This is the starting point from which the returns are calculated. Share price times shares outstanding plus net debt gives you enterprise value, or what you'd have to pay to buy the company in its totality, debt and equity included. FAST has very little debt but I did make the decision to include lease liabilities. Purchasing FAST lock, stock, and barrel would cost us about $33bn at present prices.

2. *Sustainable revenues and margin:* This step requires some subjectivity but isn't too complicated. Unless revenues are very cyclical or currently depressed, current revenues can generally suffice for sustainable revenues. Margins are generally the place to adjust for cyclicality, if any, and can incorporate any recent trends or outlook for probable future margins. Note that growth isn't of concern here because we're chiefly concerned about *today*. We're asking, 'what could this company earn *now*?'

   For FAST I simply used trailing twelve month revenues as a sustainable basis for revenues. The company's pre-tax margins have been extremely consistent, so I felt its five year average of 20.1% was reasonable. Multiplying the two numbers gives us $1.173bn of EBIT.

3. *Tax rate / NOPAT:* Again, some subjectivity but nothing you're likely to be too wrong on. I chose to use 25% because I expect slightly higher effective tax rates in the future. That gives us $880m of NOPAT for FAST.

4. *Cash return:* As a quick gut-check I like to take NOPAT and divide it into the enterprise value. This tells us what we'd earn if the company distributed *all* its earnings to owners. With FAST this comes out to less than 2.7%, which is a paltry return. That means the company must grow significantly to justify its current valuation, a feat made that much harder considering its payout ratio.

   FAST has historically distributed about 75% of earnings in the form of dividends and buybacks. It seemed reasonable to assume that would continue in the future. The $660m figure listed in the table is simply the $880m NOPAT times 75%.

5. *Organic growth return:* There are certain nuances that can be applied here, but generally organic growth will approximate GDP growth in the long-run. This is growth a company would reasonably be expected to capture as the rising tide of GDP lifts all industry participants.

   An important point here is that all growth, even this organic growth, requires capital investment. For FAST to grow 3% its revenues would have to increase $175m. I determined via my analysis of its financial statements that each $1 of revenue growth required $0.55 of capital investment to support it. Multiplying $175m by 0.55 tells us FAST will need to invest $96m to support that 3% growth.

Growth of the underlying business only translates into investor returns if the stock is purchased at intrinsic value. And yet a paradox exists here because we're trying to estimate IV and yet need the figure to make the adjustment. The way I've tackled this is to fiddle with the enterprise value figure until it gives me a 10% return. With FAST that came out to about $13bn. That means the $33bn current enterprise value is about 2.5 times too high. As a result, the 3% underlying business growth will only translate into 3% / 2.5 = 1.2% return if purchased at the $33bn enterprise price.

6. *Active reinvestment return:* What's leftover is available to management for active investment, in this case $124m. Here's where the company's history, culture, and management commentary really come into play. The 'what will they do with the money' question is important. It's not as critical with FAST because the company pays out such a large proportion of its earnings, but it can be a large driver of returns in other instances.

   Active reinvestment returns only add value to companies with a sustainable competitive advantage (i.e. moat). At worst active reinvestment can destroy value.

   It's here that we arrive at the necessity of introducing what looks suspiciously like a DCF model, which I said I don't like. What it really represents is a compounding of present value of just the reinvested portion of the current year's earnings. In FAST's case, it's ROIC of 26% (conservative) edges ahead of a 10% discount rate by 16% annually. It takes less than four years to double, hence the value creation factor of 2.

	Year 0	Year 1	Year 2	Year 3	Year 4
	$124	$144	$167	$194	$226
ROIC	26%	26%	26%	26%	26%
Discount rate	10%	10%	10%	10%	10%
"Real PV" Growth	16%	16%	16%	16%	16%
Ending	$144	$167	$194	$226	$263

   The question I asked myself was, can FAST reinvest $124m of today's cash and grow it on a present value basis by 16% per year? That doesn't seem unreasonable given the company's history of good returns and the prospects of investment in new technologies I identified in my analysis of the company.

   One can also see the sensitivity of this active reinvestment explicitly. If I change the factor to 1.0, it only cuts the current return by 35 basis points. I can conclude that this isn't a big driver of returns.

   Summing up: Combining the cash return of 2.0%, organic growth return to the investor of 1.2%, and active reinvestment return of 0.7%, I got 3.9%. That's hardly anything to get excited about. Especially considering other factors which I didn't go into here, such as what Greenwald calls franchise fade, or the tendency of moats to succumb to competitive pressures over time. Buying FAST at $33bn assumes *a lot* of things need to go right.

Quick Look

Zwack Unicum, PLC
(Ticker: ZWC1 | Disclosure: None)

I came across a small Hungarian spirits company called **Zwack Unicum, PLC**. The company's namesake liquor is Unicum, which apparently is a revered national drink in Hungary. Unicum is an herbal liqueur served before or after a meal (an aperitif or digestif for you fancy types).

The company's financials are presented in Forints, Hungary's currency. As of December 6, 2021, USD $1 equals about 325 Hungarian Forints (HUF).

Zwack is 26% owned by Diageo, the beer and spirits giant. Zwack is the exclusive distributor of Diageo products in Hungary.

FYE March, 31	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues (millions HUF)	12,209	12,354	12,078	11,775	12,795	12,458	14,281	13,958	15,739	13,960	13,083
Revenues / capital employed	1.65	1.77	1.84	1.96	2.51	2.68	3.09	2.74	3.00	2.57	2.30
EBIT margin	14%	15%	13%	15%	17%	17%	21%	18%	20%	15%	13%
Pre-tax ROIC	23%	27%	24%	29%	43%	45%	63%	50%	59%	40%	31%
Pre-tax income	1,713	1,891	1,611	1,714	2,188	2,098	2,928	2,573	3,074	2,155	1,739
Net income	1,555	1,696	1,444	1,493	1,714	1,694	2,241	2,186	2,623	1,696	1,436

As of FYE 3/31/21 the company had total assets of HUF 13bn or about USD $40m. It earned HUF 1.7bn or $5m, a level which appears to be its current earning power. The current market value of the company is HUF 33bn, or $101m.

This is an interesting company but one I quickly put in the "too hard" pile given its domicile and current valuation.

Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

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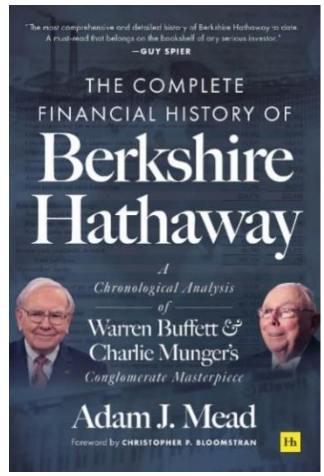
About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.

My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.



Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased here. I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.

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