DM Monthly Report

SUMMER 2019

PORTFOLIO ACTIVITY

Aside from rebalancing transactions, no trades were initiated in core DM equity mandates during the month of May.

FEATURE STOCK

Middleby Corp. (MIDD)

MIDD is engaged in the design, manufacture, and sale of commercial foodservice and food processing equipment and has exposure to the residential kitchen market through its Viking brand of products. We initiated our position in the company at the end of last summer with its stock trading at an historically attractive valuation, despite opportunities for future organic growth and accretive acquisitions. Since that time, MIDD has completed a number of strategic purchases, particularly in the area of analytics and technology to help restaurants and convenience stores connect and monitor their equipment to save energy, improve food safety, and boost operational consistency. At the same time, its residential kitchen division has continued a turnaround after several years of disappointment, with Viking showing topline growth of 10-15% over the past five quarters and EBITDA margins migrating toward the 30% level that has traditionally been generated in MIDD's commercial business. Helped by these attributes and strong first quarter earnings, MIDD shares have returned more than 30% year to date.

IS THE BIG MONEY MADE THROUGH PRE-IPO ALLOCATIONS?

Spotify, Dropbox, Pinterest, Lyft ... Uber. The past several months have seen a stampede of high profile "unicorns" leaping to market, with heavyweights such as Airbnb, Slack, and WeWork likely to go public before the end of the year. These are all multi-billion dollar companies which have catapulted their founders into the highest echelons of personal wealth. Some of the stocks listed over the past year have done reasonably well following their Initial Public Offering (IPO), while others have disappointed. The luckiest investor, however, wasn't the one who was allocated shares as they came to market; rather, common wisdom would have it that the truly monumental gains were made by those who got the chance to buy into these companies while they were still private, or "pre-IPO".

This assumption, however, may be less accurate than most believe. At the Fortune Global Summit in the fall of 2015, famed venture capitalist Marc Andreesen noted that the whole class of billion-dollar startups at that time - *already headlined by Uber and Airbnb* - was worth about the same as Microsoft. When asked to choose between the $1bn unicorns and Microsoft, he chose the unicorns stating, "as a basket, it's value is almost certainly too low." Happily, the Wall Street Journal keeps track of such companies through its "Billion $ Startup Tracker". According to them, the value of startups that were worth $1bn or more in 2015 has climbed by an impressive 89% since that time. Over the same period, however, Microsoft shares have generated a total return of about 170%, causing Mr. Andreesen to lose his hypothetical bet in spectacular fashion. Aside from a superior return, though, an investment in Microsoft would have provided at least two additional benefits over the unicorns: cash flow via a healthy and rising dividend, and instantaneous liquidity should capital be required for another opportunity or some previously unforeseen need. So, even though much press is being devoted to the high profile private companies currently going public, there's a good chance you're doing just as well or better in a portfolio of high quality listed stocks.

Top 5 most valuable unicorns in 2015:

Company	Nov-2015 Valuation	Current Valuation	Total Return: *2015 to now*
Uber	$51 billion	$76 billion*	+49%
Xiaomi	$46 billion	$29 billion**	-37%
Airbnb	$25.5 billion	$31 billion**	+22%
Palantir	$20 billion	$20 billion**	0%
Snap	$16 billion	$19 billion*	+19%
Entire $1bn unicorn basket			**+89%**
Microsoft			**+170%**

Source: *Wall Street Journal*

*Current public market value **Most recent private market valuation

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