Clark Street Value

Thursday, December 31, 2020

Year End 2020 Portfolio Review

What a fortunate and unprecedented year. Not only did it have large, for those directly impacted by the virus or who have suffered the death of a loved one, it was a year fraught with fundamental, rare in a lifetime events for other able to work from home and didn't need to worry about their next paycheck. Not to mention the Presidential election, the Brexit vote, the Australian bushfires, the rise of the capital, physical and financial markets, the rise of cryptocurrencies, and the rise of SPACs and Chinese ADRs and the rise signs of excess everywhere and I'm having a hard time squaring overheated speculation in certain areas with the never ending list of catalysts for holding. Continue to hold cash.

	Beg. Value	Ending Value	Net Cash	CAGR
2020	1,000,000	1,200,000	0.00%	20.00%
2019	800,000	1,000,000	0.00%	25.00%
2018	1,000,000	800,000	0.00%	-20.00%
2017	900,000	1,000,000	0.00%	11.11%
2016	800,000	900,000	0.00%	12.50%
2015	1,000,000	800,000	0.00%	-20.00%
2014	1,000,000	1,000,000	0.00%	0.00%
2013	800,000	1,000,000	0.00%	25.00%
2012	700,000	800,000	0.00%	14.29%
2011	800,000	700,000	0.00%	-12.50%
2010	700,000	800,000	0.00%	14.29%
2009	800,000	700,000	0.00%	-12.50%
2008	1,000,000	800,000	0.00%	-20.00%
2007	900,000	1,000,000	0.00%	11.11%
2006	800,000	900,000	0.00%	12.50%
2005	700,000	800,000	0.00%	14.29%
2004	500,000	700,000	0.00%	40.00%
2003	300,000	500,000	0.00%	66.67%
2002	200,000	300,000	0.00%	50.00%
2001	100,000	200,000	0.00%	100.00%
2000	100,000	100,000	0.00%	0.00%
1999	100,000	100,000	0.00%	0.00%
1998	100,000	100,000	0.00%	0.00%
1997	100,000	100,000	0.00%	0.00%
1996	100,000	100,000	0.00%	0.00%
1995	100,000	100,000	0.00%	0.00%
1994	100,000	100,000	0.00%	0.00%
1993	100,000	100,000	0.00%	0.00%
1992	100,000	100,000	0.00%	0.00%
1991	100,000	100,000	0.00%	0.00%
1990	100,000	100,000	0.00%	0.00%
1989	100,000	100,000	0.00%	0.00%
1988	100,000	100,000	0.00%	0.00%
1987	100,000	100,000	0.00%	0.00%
1986	100,000	100,000	0.00%	0.00%
1985	100,000	100,000	0.00%	0.00%
1984	100,000	100,000	0.00%	0.00%
1983	100,000	100,000	0.00%	0.00%
1982	100,000	100,000	0.00%	0.00%
1981	100,000	100,000	0.00%	0.00%
1980	100,000	100,000	0.00%	0.00%
1979	100,000	100,000	0.00%	0.00%
1978	100,000	100,000	0.00%	0.00%
1977	100,000	100,000	0.00%	0.00%
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1975	100,000	100,000	0.00%	0.00%
1974	100,000	100,000	0.00%	0.00%
1973	100,000	100,000	0.00%	0.00%
1972	100,000	100,000	0.00%	0.00%
1971	100,000	100,000	0.00%	0.00%
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1967	100,000	100,000	0.00%	0.00%
1966	100,000	100,000	0.00%	0.00%
1965	100,000	100,000	0.00%	0.00%
1964	100,000	100,000	0.00%	0.00%
1963	100,000	100,000	0.00%	0.00%
1962	100,000	100,000	0.00%	0.00%
1961	100,000	100,000	0.00%	0.00%
1960	100,000	100,000	0.00%	0.00%
1959	100,000	100,000	0.00%	0.00%
1958	100,000	100,000	0.00%	0.00%
1957	100,000	100,000	0.00%	0.00%
1956	100,000	100,000	0.00%	0.00%
1955	100,000	100,000	0.00%	0.00%
1954	100,000	100,000	0.00%	0.00%
1953	100,000	100,000	0.00%	0.00%
1952	100,000	100,000	0.00%	0.00%
1951	100,000	100,000	0.00%	0.00%
1950	100,000	100,000	0.00%	0.00%
1949	100,000	100,000	0.00%	0.00%
1948	100,000	100,000	0.00%	0.00%
1947	100,000	100,000	0.00%	0.00%
1946	100,000	100,000	0.00%	0.00%
1945	100,000	100,000	0.00%	0.00%
1944	100,000	100,000	0.00%	0.00%
1943	100,000	100,000	0.00%	0.00%
1942	100,000	100,000	0.00%	0.00%
1941	100,000	100,000	0.00%	0.00%
1940	100,000	100,000	0.00%	0.00%
1939	100,000	100,000	0.00%	0.00%
1938	100,000	100,000	0.00%	0.00%
1937	100,000	100,000	0.00%	0.00%
1936	100,000	100,000	0.00%	0.00%
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1931	100,000	100,000	0.00%	0.00%
1930	100,000	100,000	0.00%	0.00%
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1918	100,000	100,000	0.00%	0.00%
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1809	100,000	100,000	0.00%	0.00%
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1781	100,000	100,000	0.00%	0.00%
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1777	100,000	100,000	0.00%	0.00%
1776	100,000	100,000	0.00%	0.00%

I finished the year up 20.16%, which is well shy of some others investors performance this year but still above the S&P's 18.40%. I'd be happy with that performance if I had been able to put more money to work in the market but I didn't because I didn't see much opportunity outside my special situations. My Effective Cash Yield (the yield on the portfolio if it is 100% cash) ended the year at 0.05%. Positive attribution across the year included Green Brick Partners (GRBK), Colony Capital (CLDT), Five Star Senior Living (FVE) and Frontier Group (FRG), negative attribution came from Ladder Capital (LADR), Sotherly Hotels (SOHO), Seritage (SRG), Macerich (MAC), Independence Realty Trust (IRT), CIM Commercial Trust (CMTG), and Alexander & Baldwin (ALEX).

Thoughts on a few Current Holdings

- While such high prices exist, I'm still a net seller. On the **Real Estate/Hotel (NCZ)**, the largest distributed gaming provider in Illinois. The thought here is that slot players are going to get liquor and post-covid, why drive an hour or two to a casino when there's one in your town? Plus, the company is well positioned to roll up the industry and take advantage of business at a reasonable multiple. The Pennsylvania Gaming Control Board has approved a new gaming license, advantage to allow for its IPO and roll out the other way around. Regional casinos make the vast majority of their money from slot machines, so this should be a great business model. Management is well aligned with shareholders and has been buying shares. The company has a strong balance sheet and should be able to use its stock to make some accretive acquisitions. Slot machines have been increasingly difficult to push through in the current economy, helping EBITDA within the thirty-month cover to the ex-gaming operating cash flow. Continue to hold.
- Despite a good run in 2020, the **Blue Star Group (BPM)** still is a cheap stock, with an enterprise value of just 3.0XEBIT (TEBIDAR of 2.0X), EFAM of 1.0X, and I'm capitalizing an R&D restoration payment of 2.87% annual level and another 2.87% annual level of depreciation. Management is buying shares, and I'm betting they will do so at a good price. The company is a leader in the fragmented and growing industry of the maintenance, repair, and overhaul of industrial refrigeration and HVAC units. Again, that's growing quickly and only requires 325-500 of effort of cash up-front per new location. It could be a decent business if it can just get its SG&A under control. Management has been working on it for several years, but even a modest improvement would be a meaningful boost to the stock price. Continue to hold.
- My obligations leftoff comments on **Howard Hughes Corporation (HHC)** – Their diversified model should help them survive the coronavirus. The company owns a portfolio of master planned communities, operating properties, and a portfolio of office/flex/industrial properties that were put into the joint venture. Its master planned communities have sold well so far, and I believe that its Austin and Woodlands land holdings will have sold out of housing and its value increase into markets that should have strong all-in yields for a long time. The company's operating properties have been hit with tenant bankruptcies and negative trends in Texas as well as that the Woodlands is a destination location and benefiting from residential over-migration trends. Recently we saw a rock-bottom discount, "new" **BBX Capital (BBXIA)** should exit from some upside despite a reasonable price, but I'm still long and think the company will be able to compound its book value at a decent rate. Management has been buying back stock and has a long track record of creating value through acquisitions. The company has a 50% of book value, that represents an additional 50% upside.
- **MDC Partners (MDCA)** has been a fucking total mess since they went to an external structure, I warned should that happen back when they were in the process of doing it, but I'm still holding on for a multi-bagger. The company has a better and more diversified business, but it trades at over 5.75x book value and EBITDA, leaves 0.25x. Total enterprise value/EBITDA is a reasonable 10.0XEBITDA, but the company has a fair amount of debt and has to pay out earnouts and put options related to its acquisitions. I'm hoping that the company can grow into its capital structure and that some of the earnouts and put options will be bought out for less than face value. It's a decent but not great business, but it's a decent enough business and I'm willing to wait for the market to recognize that fact and buy the stock at a better price. Continue to hold.
- **Colony Capital (CLDT)** was a significant winner for the one year, thank you to those that encouraged me to take a closer look. I'm still long and think the stock could double from here over the next two years. The company is in the process of effectively liquidating its non-core assets and focusing on its three core business lines and will continue to buy back stock. I'm long and I'm willing to wait for it to double and then decide if I want to hold on or take some profits. It could be a multi-bagger if it can execute on its plan, but it's not a "great" business and I'm not sure management will be able to execute on its plan. Continue to hold.

Postcards Unmentioned Positions

- Last year I talked about my old position in **Perspecta** (PRSP), a 2020 spinoff of DXC that provides IT services to the government. I said I was long and that I thought the company would be able to grow into its dividend and that I thought it was worth more than the current price and paid nothing it able to be acquired without jeopardizing the tax free spinoff. It was bought by private equity firm **Veritas Capital** for a decent premium to the current price. I'm long and I think the company will be able to grow into its dividend and that it will be acquired at a decent premium in the next few months that would close before 12/31/21. I think that's longer than it would took significantly faster the total value creation is there, but I'm willing to wait for it