



April 24, 2024

Dear Partner:

The Greenlight Capital funds (the “Partnerships”) returned 4.9%<sup>1</sup> in the first quarter of 2024, net of fees and expenses, compared to 10.6% for the S&P 500 index.

The stock market is fundamentally broken! David discussed this belief and its implications for our investment discipline on the Bloomberg *Masters in Business* podcast in February.<sup>2</sup>

We first shared our thinking on this topic in our year-end 2020 letter and our contention remains that the market structure has changed such that most investment capital either:

- Does not care about valuation (passive index funds);
- Cannot figure out valuation (most retail investors who have no formal valuation training); or
- Chooses not to care about valuation (various technical strategies, quant strategies, and any trading strategy with short-term holding periods, which by definition expresses an opinion about price, but not value).

The result is that a very small proportion of trading volume today is based on strategies that try to identify which stocks are undervalued in order to buy them for an intermediate or a long-term investment period, with a view that the shares will outperform as they close the discount to fair value.

In fact, so much more money is allocated to passive strategies that they are no longer price takers, relying on the work of other participants to figure out the value and then free-riding on those insights. Instead, these strategies have become price makers, where their flows are an important driver of price.

Since index funds generally base investment allocation on market capitalization, they overweight the overvalued stocks and underweight the undervalued stocks. This is not the same thing as high-multiple versus low-multiple stocks. A high-multiple stock can be undervalued, and a low-multiple stock can be overvalued.

Imagine you have two companies and they are both worth \$1 billion on a *fair value basis*, but one is valued by the market at \$500 million and the other one at \$2 billion. When a market capitalization-weighted index fund gets \$5 to invest in those two companies, it will put \$4 in the \$2 billion company and only \$1 in the \$500 million company. The overvalued stock gets

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<sup>1</sup> Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.

<sup>2</sup> <https://www.bloomberg.com/news/audio/2024-02-08/masters-in-business-david-einhorn-podcast>

4x the new investment. As a result, it then outperforms while the undervalued company underperforms.

The problem is compounded when the new money invested in the index is the result of a redemption from an active manager trying to invest in undervalued securities. Imagine that the \$5 came from a professional manager who correctly understood which stock was undervalued and which was overvalued and had deployed \$4 into the undervalued stock and \$1 into the overvalued stock.

When that manager is redeemed from, and the funds are reinvested in an index fund, the undervalued stock experiences \$3 of net selling (a \$4 sale and a \$1 buy), while the overvalued stock experiences \$3 of net buying (a \$1 sale and a \$4 buy). Rather than converging to fair value, the result is that the two stocks diverge even further from fair value.

As several trillion dollars have been redeployed in this fashion in recent years, it has fundamentally broken the market. There are significant policy, macroeconomic, capital formation and corporate governance implications of all this and many of them are negative.

But, from our perspective, the result of this historic shifting of capital is a beautiful opportunity set in which we can invest. We are not complaining. In fact, we are excited!

Once these undervalued stocks underperform long enough, some of them become ridiculously cheap. Instead of us paying 10-15x earnings to acquire our position, we might only have to pay 5-8x earnings. If we do that in companies that don't have a lot of debt and can return a good chunk of their earnings to us in buybacks and dividends, our current return is extremely attractive and our perceived level of risk is low. If we are getting a double-digit return from dividends or buybacks, it doesn't matter if other investors continue to ignore the stock. Our return can come from the company itself, rather than from other investors. Even if the market stays "broken" in these names, we still expect to do well. We believe we are finding compelling investments in this market with return profiles that historically we have only seen at the bottom of a bear market! We give several examples below of our new positions that exemplify this opportunity set.

The first quarter sure seemed like a bull market. The U.S. economy was much stronger than most expected and markets largely ignored political and geopolitical concerns. Instead, many investors focused on themes ranging from AI to cryptocurrency to meme stocks. Looking at the performance of our long and short portfolios, it is difficult to see where the market was up double digits. Our long portfolio was up only 2.2%, net of fees and expenses, while our single-name short portfolio broke even.

However, looking at our largest positions, it's clear that we simply had negative alpha in our long book and positive alpha in our short book. The results were deserved on both sides.

Our longs had several negative developments. The largest detractor was CONSOL Energy (CEIX), whose shares fell early in the quarter due to moderately lower coal pricing. Later in the quarter, the shares further suffered in response to the collapse of the Francis Scott Key

Bridge in the Baltimore harbor, which, in the near term, will prevent CEIX from exporting coal from its local terminal. We do not believe the collapse has long-term relevance to the investment. CEIX fell from \$100.53 to \$83.76 during the quarter.

We established a new medium-sized position in Penn National Gaming (PENN) at an average price of \$22.69 per share, but, for reasons discussed below, the shares fell to \$18.21 by quarter-end. We experienced smaller losses in Brighthouse Financial (BHF), which declined 3% following an unexpected accounting change that adversely impacted statutory capital, and Vitesco Technologies (Germany: VTSC), which fell 18% due to a surprisingly low exchange ratio agreed to as part of its previously-announced merger with Schaeffler. In a strategy that ensured we would be half right and half wrong, we sold half our position into the tender offer that closed last year and kept the other half to sell into the merger. We are presently evaluating our options regarding the shares that we kept.

We had two material winners in the long portfolio. Tenet Healthcare (THC) rose 39%, benefitting from ongoing strength in healthcare utilization and the sale of additional hospitals at premium multiples, suggesting that the stock was significantly undervalued. Green Brick Partners (GRBK) advanced 16% in anticipation of another strong year in 2024.

Since the single-name short portfolio broke even, the result was obviously balanced between winners and losers. On the winning side, our two largest shorts both announced disappointing year-end results and the shares fell double-digit percentages. Another medium-sized short had shockingly poor results and the shares de-rated significantly. Finally, we have several shorts in a niche area of financial services, which suffered significant legal and regulatory events that will likely impair their long-term business models. On the losing side, two of the four difficult shorts we referenced last quarter continued to give us trouble. We covered one and trimmed the other.

We had a strong quarter in macro, which added 3.1%, net of fees and expenses, to the quarterly result. Early in the quarter, we established a new large position by selling December 2024 SOFR futures. At the time, the market expected the Federal Reserve to cut short-term interest rates between 1.50% and 1.75% this year. Given the strong economy and possibly reaccelerating inflation, we believed this was highly unlikely and expressed our view directly by selling SOFR futures. By quarter-end, the market came to see it our way and only 0.60% to 0.85% of cuts were priced in. While we still believe this is too much, the asymmetry is less obvious and we've trimmed the position to take some profits. The SOFR futures position was the largest winner in the portfolio this quarter.

Gold was a significant contributor as the price advanced more than 8% during the quarter. The rise in gold was surprising given that typical moves in currencies and interest rates would have suggested a weak quarter for gold. While it's possible the advance was related to the market beginning to doubt the sustainability and wisdom of both monetary and fiscal policies, other indicia suggest that this was not the case. Our working theory is that there has been a secular trend of the East buying gold from the West. Perhaps the West is running out of gold it is willing to sell, while Eastern demand has remained strong enough to force the price higher.

We have several new positions to discuss.

Last quarter, we wrote about a new small position in Syensqo, a spin-out of Solvay, while alluding to a new top 5 position that we were still accumulating at year-end. That position is the former parent, *new* Solvay (Belgium: SOLB), which we unveiled on April 3rd at the Sohn Investment Conference in New York.

SOLB is an essential chemicals business. Its key products are soda ash (sodium carbonate) and BICAR (sodium bicarbonate), peroxides, silicas, fluorine and rare earth formulations and solvents. We established our position at an average price of €22.89 per share. By our estimates, SOLB earned over €5 pro forma per share last year. This year, due to falling soda ash prices, earnings are likely to be in the high €3s or low €4s. We believe this will be a trough result and that the shares were undervalued at less than 6x those earnings. Over the intermediate term, management intends to cut costs and expand some operations, which if successful, should help generate earnings of almost €7 per share by 2028. The company has a conservative balance sheet and a nearly 10% dividend yield. SOLB shares ended the quarter at €25.30. For the full thesis, please review our Sohn Investment Conference presentation that we distributed earlier this month.<sup>3</sup>

As referenced above, we established a medium-sized position in PENN, an operator of regional casinos. PENN's current enterprise value is just over \$4.3 billion, and based on an 8-12x multiple of free cash flow, we value their land-based casinos between \$4.3 billion and \$7 billion. PENN also competes in online gaming, particularly sports betting, and we believe the market ascribes a substantial negative value to that effort. To be fair, the online segment has a checkered history. In 2020, PENN acquired a minority stake of Barstool Sports, and three years later agreed to purchase the rest, for a grand total of \$551 million. That acquisition was a complete failure, and the company wound up abandoning the investment. It also spent \$2 billion in 2021 to acquire Score Media and Gaming to establish a better online sports betting platform. Last year, it entered into a deal with ESPN to launch and operate ESPN BET.

Successful sports betting franchises can have substantial value. DraftKings is the leader and is valued at over \$20 billion. Through ESPN BET, PENN aspires to achieve top-three status in the industry. Given that the market is ascribing negative value to ESPN BET, it's fair to say that after the Barstool fiasco, investors have serious doubts about the company's strategy and management's competence to execute. Were the market to credit PENN with merely 15% of DraftKings' value, that segment alone would be worth \$20 per share.

PENN launched ESPN BET last November. The launch was largely successful and led them to achieve a top-three user share by adding one million customers in less than two months. This result was much better than expected and enabled PENN to project turning a profit a year earlier than its previous guidance. To accomplish this, the company spent more on upfront marketing to acquire customers than it had indicated. Though we had believed the rationale for increased spending was well understood, the market focused on the higher spend and punished the shares.

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<sup>3</sup> [Sohn Investment Conference Presentation, April 3, 2024](#)

The title of our Sohn presentation was “Solve AI,” which was a play on Solvay’s corporate name. Nonetheless, we established another new long position that actually stands to benefit from AI, which we believe is not reflected in the current stock price. HP Inc. (HPQ) sells computers, printers and adjacent products and supplies. We established an initial position at an average price of \$30.76 per share, which is about 9x current year earnings estimates. Recent results reflect a two-and-a-half-year cyclical downturn in demand for computers, which followed a mini-boom driven by COVID and related demand for equipment to work-from-home. We believe that we are, at a minimum, on the cusp of a normal PC refresh cycle, which should drive earnings above estimates. HPQ has committed to return 100% of free cash flow to shareholders through buybacks and dividends. The shares have a 3.6% dividend yield and we estimate HPQ has the capacity to buy back 25-30% of the outstanding shares over the next three years.

The more exciting opportunity is through a possible AI-driven PC adoption cycle, fueling higher unit prices and a more robust PC market recovery. Currently, investor attention around AI is focused on cloud service providers and related equipment. This summer, Intel plans to release a neural processing unit (NPU), which will allow AI functionality on local devices. Microsoft has teased AI features that are coming in the next Windows update later this year, which may require a computer with an NPU to fully function. One such application is believed to be ‘AI Explorer,’ which is described as an “advanced Copilot” with a built-in history/timeline feature that turns everything you do on your computer into a searchable repository using natural language. It is said to work across any application and allows users to search for previously opened conversations, documents, web pages and images. While we have spoken with experts that are divided between being enthusiastic and skeptical of an AI PC cycle, we don’t believe any of the optimism is currently reflected in the share price. HPQ ended the quarter at \$30.22 per share.

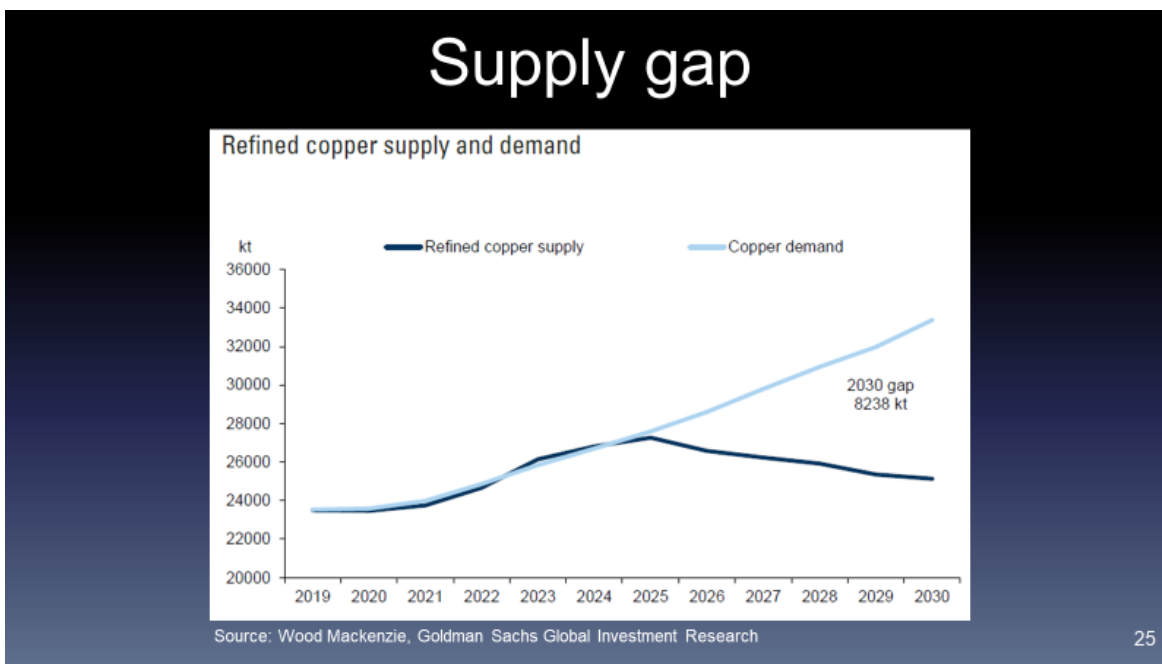
We established a small long position in Roivant Sciences (ROIV). ROIV is a biotech company focused primarily on inflammation and immunology therapies. In addition to an exciting pipeline, ROIV has a strong track record of positive trial results and successful monetization of pharmaceutical assets. The market currently believes core ROIV is effectively worthless, as the company has a market capitalization of about \$9 billion, but holds over \$6 billion of net cash and a \$2.6 billion stake in its publicly traded subsidiary, Immunovant (IMVT). We believe there are several valuable assets inside the company, notably a broad patent estate around lipid nanoparticles used in COVID vaccines for which Moderna and Pfizer may owe ROIV several billion dollars in royalties, a potential multi-billion-dollar specialty autoimmune disease drug that recently passed its 7<sup>th</sup> successful Phase 2 trial and a novel topical agent to treat skin conditions such as psoriasis and atopic dermatitis. Additionally, we believe there are several other promising earlier stage assets inside ROIV. Lastly, the management team continues to find new opportunities to in-license from larger pharmaceutical companies. ROIV recently announced a \$1.5 billion share repurchase program. We acquired our shares at an average price of \$10.96. ROIV ended the quarter at \$10.54.

We initiated a small position in Class A shares of Liberty Global (LBTYA), one of three share classes of Liberty Global. Liberty Global is a mobile communications company with ownership

stakes in a number of European operations across Switzerland, the United Kingdom, Belgium, the Netherlands and Ireland. LBTYA trades at a more than 40% discount to our estimate of fair value and we believe company management is focused on closing this gap. The first step will be the spin-off of Liberty Global's Swiss business later this year. We estimate that the Swiss business, when separately listed, could account for more than half of Liberty Global's total current market capitalization and could leave its remaining businesses trading collectively at a more than 60% discount to fair value. The company has a history of aggressively repurchasing its own shares, having reduced share count across all three classes by nearly 60% in the past seven years. Liberty Global has announced a plan to repurchase up to another 10% of its shares this year. We acquired our shares at an average price of \$19.19. LBTYA ended the quarter at \$16.92.

Finally, we established a medium-sized macro position to benefit from higher copper prices. Long-time partners may recall that in 2021 we presented Teck Resources (TECK) at the Sohn Investment Conference. At the time, our thesis was based on a combination of being bullish on copper and believing that TECK was about to exit the penalty box after a multi-year investment in a new copper mine that was on the brink of finally coming online. Back then, TECK traded at C\$31.09. Based on copper at \$4.50 a pound, we thought the stock was undervalued by half. It has since doubled (and dramatically outperformed copper peer Freeport-McMoRan) and, over time, we have reduced the position into strength.

As we showed on this slide from our 2021 presentation, our thesis was that after several new mines, including TECK's, there would not be new supply available in the second half of this decade.



Time has passed, the new mines have come online and the anticipated gap between supply and demand is likely to open up in the next year. While we still believe TECK is undervalued should copper prices rise, it is less undervalued than it once was. Our thesis now is that copper supply

is about to fall short of demand, forcing prices substantially higher. Once again, we think the best way to invest in that thesis is the most direct way – in this case through options on copper futures.

In addition to the unsuccessful short referenced above, we closed several other positions. New York Community Bancorp (NYCB) announced disastrous results in January. Fortunately, we decided to sell immediately and ask questions later. As a result, we escaped with an immaterial loss. We also sold our small position in First Horizon (FHN) with a gain after the share price advanced by almost 40% over eight months, as we no longer believed the stock to be substantially undervalued.

As we announced at our 2024 Partner Meeting, we've promoted Josh Hittman to Partner. In 2014, Josh joined Greenlight in a newly formed position of Field Research Analyst and in 2019 he became our Director of Proprietary Research. Josh has done a great job creating a niche role within the investment team and during his time at Greenlight has become a mentor for many of our investment analysts. Congratulations, Josh!

At the time of this writing, the largest disclosed long positions in the Partnerships are Brighthouse Financial, CONSOL Energy, Green Brick Partners, Kyndryl Holdings and Solvay. At quarter-end, the Partnerships had an average exposure of 108% long and 63% short.

*“I never had an interest in being a mayor 'cause that's a real job. You have to produce. That's why I was able to be senator for 36 years.”*

– Joe Biden

*“No, I would not protect you [NATO]. In fact, I would encourage [Russia] to do whatever the hell they want.”*

– Donald Trump

Best Regards,

*Greenlight Capital*

Greenlight Capital

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Net performance contributions by attribution category apply an allocation of operating expenses, management fee and performance allocation to the applicable gross contribution. These pro forma net contributions are shown for illustrative purposes only to meet regulatory requirements. Different assumptions than those made by Greenlight can result in different net performance contributions at the category level. A description of the calculation methodology is available upon request.

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