Clark Street Value

Wednesday, December 31, 2025

Year End 2025 Portfolio Review

Another ugly year for me, that's three of the last four. My portfolio was down -5.93% on the year, compared to a positive +17.91% for the S&P 500. My long term performance has shrunk to 18.49% annualized, below my long term target of 20.00%. I've spent some time considering how much more effort I want to put into trying to outperform the market going forward. Starting in the new year, I'm taking on an expanded role in my day job, so even if performance bounces back considerably I'm going to scale back on the blog and individual stocks. Focusing on my career seems to be the best return on investment at this point in my life. However, I plan to continue posting for the love of the game, just will be less frequent and/or be dedicated to higher conviction ideas.

Year	Return	S&P 500	(+/-)
2011	44.38%	2.11%	42.27%
2012	5.36%	16.00%	-10.64%
2013	42.88%	32.39%	10.49%
2014	20.31%	13.69%	6.62%
2015	16.79%	1.38%	15.41%
2016	22.47%	11.95%	10.52%
2017	31.25%	21.83%	9.42%
2018	-20.46%	-4.38%	-16.08%
2019	98.63%	31.49%	67.14%
2020	24.34%	18.40%	5.94%
2021	74.99%	28.71%	46.28%
2022	-35.31%	-18.11%	-17.20%
2023	38.54%	26.29%	12.25%
2024	-6.39%	25.02%	-31.41%
2025	-5.93%	17.91%	-23.84%
		IRR:	18.49%

Current Positions (alphabetical order):

- **Braemar Hotels (BHR)** is an externally managed (Ashford Inc) lodging REIT focused on luxury hotels and resorts, back in August, BHR announced the initiation of a sales process. In keeping with the "K-shaped economy" theme, BHR's high end luxury resorts have performed well on an individual basis, but the REIT's abusive external management agreement and conflicts of interest have kept the stock from performing. Ashford is incentivized to sell BHR because they're due a 12x termination fee, but not necessarily incentivized to sell at an advantageous price for the equity (other than getting a reasonable enough deal to secure the vote). @somehotelguy posted on Twitter back at the end of October, "Braemar call for offers tomorrow. Any guesses?" and the CEO Richard Stockton wrote in his annual letter that "further announcements should be coming in 2026." I'm hoping for a good outcome in Q1. Interestingly, Ashford's other lodging REIT, Ashford Hospitality Trust (AHT), initiated a similar sales process in December, adding legitimacy to both, seems like Monty Bennett is serious about one last grift and leaving public markets.
- **Brightstar Lottery (BRSL)** is a pure play lottery operator following the sale of their IGT gaming terminal business to Apollo (APO). Brightstar trades cheap at just ~6x EBITDA for a fairly high quality business with clear revenue line of sight. Brightstar is returning cash to shareholders via a large buyback plan and an above average dividend yield.
- **Franklin Street Properties (FSP)** is an office REIT in the midst of a sales process, shares have traded down significantly since my original post. FSP's debt (combination of two term loans and senior notes) is likely the reason, their debt matures on 4/1/26, the company issued a press release on 11/21, "FSP is currently in active negotiations with a potential lender to refinance all of its existing indebtness." At a current price of $0.90/share, I have the implied cap rate at 14-15%. There's a lot of talk about 2026 being the year when commercial real estate transaction activity returns as bid-ask spreads shrink with sellers accepting the new reality; a sale of FSP should happen early in Q1.
- **Forward Air (FWRD)** is primarily an asset-lite less-than-truckload transportation services provider that historically had a nice niche in airport-to-airport routes. They're almost a year into a strategic review that has had a few twists and turns. There's a lot of debt here, but FWRD insists the process is ongoing, with potential proxy fight / director nominations around the corner, the company might end up taking the best offer on the table sooner than later.
- **Golden Entertainment (GDEN)** is a regional casino owner operator focus on the Nevada market, they announced a transaction with VICI buying the real estate and Chairman/CEO Blake Sartini taking the operating company private. The implied multiple on the operating company is around 1x EBITDA leaving open the possibility for a bump to secure shareholder approval.

GDEN Price	$	27.50
VICI Price	$	28.30
Merger Ratio		0.902
VICI shares	$	25.53
Cash	$	2.75
Total	$	28.28
Spread		2.82%

I left the VICI side of the trade unhedged which appears to be a mistake, shares are currently trading below the merger consideration and depending on when the close happens, GDEN could get another $0.25 dividend or two that I didn't account for in the above.

- **GCI Liberty (GLIBA/K)** is an Alaskan telecom that recently completed a $300MM rights offering backstopped by John Malone (the backstop wasn't needed). The rights offering worked out nicely for those who participated with equity being raised at $27.20/share compared to the current price of $36.09/share. Now we wait for Malone to put those funds to work with an acquisition to turn GLIBA into a "new Liberty Media". I hope we see a true arms length transaction and not something like GLIBA buying distressed Liberty Puerto Rico from Liberty Latin America (LILA). In the meantime, GCI Liberty remains reasonably cheap at just 5.7x LTM EBITDA, but competition from satellite providers like Starlink is a concern.
- **Green Brick Partners (GRBK)** is primarily a Texas homebuilder, mostly focused on Dallas, but they've recently branched out to the Austin and Houston markets. The company has performed exceptionally well, but in the back of my head I wonder what is really their competitive advantage? They would tell you land sourcing and development, they like to talk about infill communities, but its questionable. GRBK trades for 10x earnings and 1.5x book, both pretty reasonable for this business, I've coffee canned this position for the time being.
- **Income Opportunity Realty Investors (IOR)** is a money-market like investment with almost all of its assets consisting of a cash sweep account receivable with its external manager that owns almost all of the shares. The play here is to wait until they squeeze out the remaining shares. The controlling family ownership group, via TCI, continues to buy whatever shares are available below $18 per share, book value is $30.72 per share.
- **Mechanics Bancorp (MCHB)** is a California based regional bank with branches up and down the west coast that swallowed up distressed HomeStreet (HMST) this past year. The bank is majority owned by Ford Financial Fund, their strategy is pretty simple, chip away at the expense ratio and pay out the vast majority of net income as a dividend. The team at Ford Financial has run this playbook a few times in the past before selling out, the same will likely happen here at somepoint. I plan on selling down my position sometime in 2026 as my original thesis with HMST has played out.
- **Mount Logan Capital (MLCI)** is a subscale, lower-quality private credit asset manager that recently completed a reverse merger with 180 Degree Capital (TURN), providing MLCI with a U.S. listing and some cash/securities on its balance sheet. A lot of digital ink is being spilled about the risks of private credit, I generally think the systemic risk fears are overblown and much of the "cockroaches" that have been uncovered are unrelated to private credit. But, I'm under no impression that Mount Logan is a long term winner in this space, the company has an odd management structure that doesn't scream alignment and the management team has some past missteps with credit picking in their prior seats. This week, MLCI formally launched their previously announced tender offer for approximately 12% of the shares outstanding at a price that reflects the merger date book value of $9.43 per share. The tender is set to close on February 2, 2026, doing a little work on what potential outcomes could look like I get the below:

MLCI Price	$	8.26
Tender Offer	$	9.43
Premium Offered		14%
Shares Out		13,255,000
Tendered Shares		1,590,600
Tendered %		12%
Current Est BVPS	$	10.26
Current MV Disc		19.5%
Current Est BV	$	135,996,300
Tender Cost	$	(14,999,358)
Proforma BV	$	120,996,942
Proforma SO		11,664,400
Proforma BVPS	$	10.37

IRR Assuming Constant Disc		
12/29/2025	$	(8.26)
2/2/2026	$	1.13
2/2/2026	$	7.35
IRR		32%

IRR Assuming 5% Inc Discount		
12/29/2025	$	(8.26)
2/2/2026	$	1.13
2/2/2026	$	6.89
IRR		-26%

The math will end up a little better because I'm assuming 100% of shares tendered in the above, management has pledged not to tender and there will be some legacy shareholders asleep at the wheel or that just forget to tender. The IRR swings pretty wildly depending on what discount-to-book you believe the manager will trade at post merger. In the long run, the hope is that MLCI will decouple from being valued off of its balance sheet and rather be valued based off an earning stream, but that bridge is pretty shaky and confusing at the moment.

- **Net Lease Office Properties (NLOP)** is an office REIT with an explicit liquidation business plan, it was spun from W.P. Carey (WPC) with corporate level debt, but that's all been paid off and the REIT is now distributing asset sales proceeds to investors. NLOP is a pretty safe way of playing the return to office theme.
- **NSTS Bancorp (NSTS)** is a small thrift conversion located in the far northern suburbs of Chicago. The thesis is fairly simple but requires patience, NSTS passed its three year mark following the conversion making it eligible to be acquired by another bank or credit union. NSTS trades for 0.80x tangible book value, stopped repurchasing stock and is facing shareholder pressure to sell. Tim Melvin was on Value After Hours a few weeks back and gave a quick pitch for NSTS.
- **Sotherly Hotels (SOHOO)** is a small lodging REIT that is being taken private by Kemmons Wilson Hospitality Partners and Ascendant Capital for $2.25/share. SOHO has a three classes of preferred stock, each of these classes features a conversion option to common in the case of a change of control, but the number of shares has a cap. Below is what I show as the spreads and IRR based on a 3/31 close for the common (the merger is targeted to close in Q1) and a 5/15 close for the preferred stock (the conversion happens post merger closing).

		Current	Share Cap	Buyout	Gross	IRR
SOHO	$	2.16	1	$ 2.25	4.2%	17.8%
SOHOB	$	16.88	8.29187	$ 18.66	10.5%	30.8%
SOHOO	$	17.33	8.50340	$ 19.13	10.4%	30.4%
SOHON	$	15.08	7.39645	$ 16.64	10.4%	30.3%

The take-private transaction appears to be on track: the definitive proxy is out, shareholder vote is set for 1/22/26, insiders own 17.73% of the shares and have signed on to vote yes, Apollo (Marc Rowan has recently said the firm is in a defensive posture) is leading the financing of the transaction. Sotherly Hotels is my largest position heading into 2026.

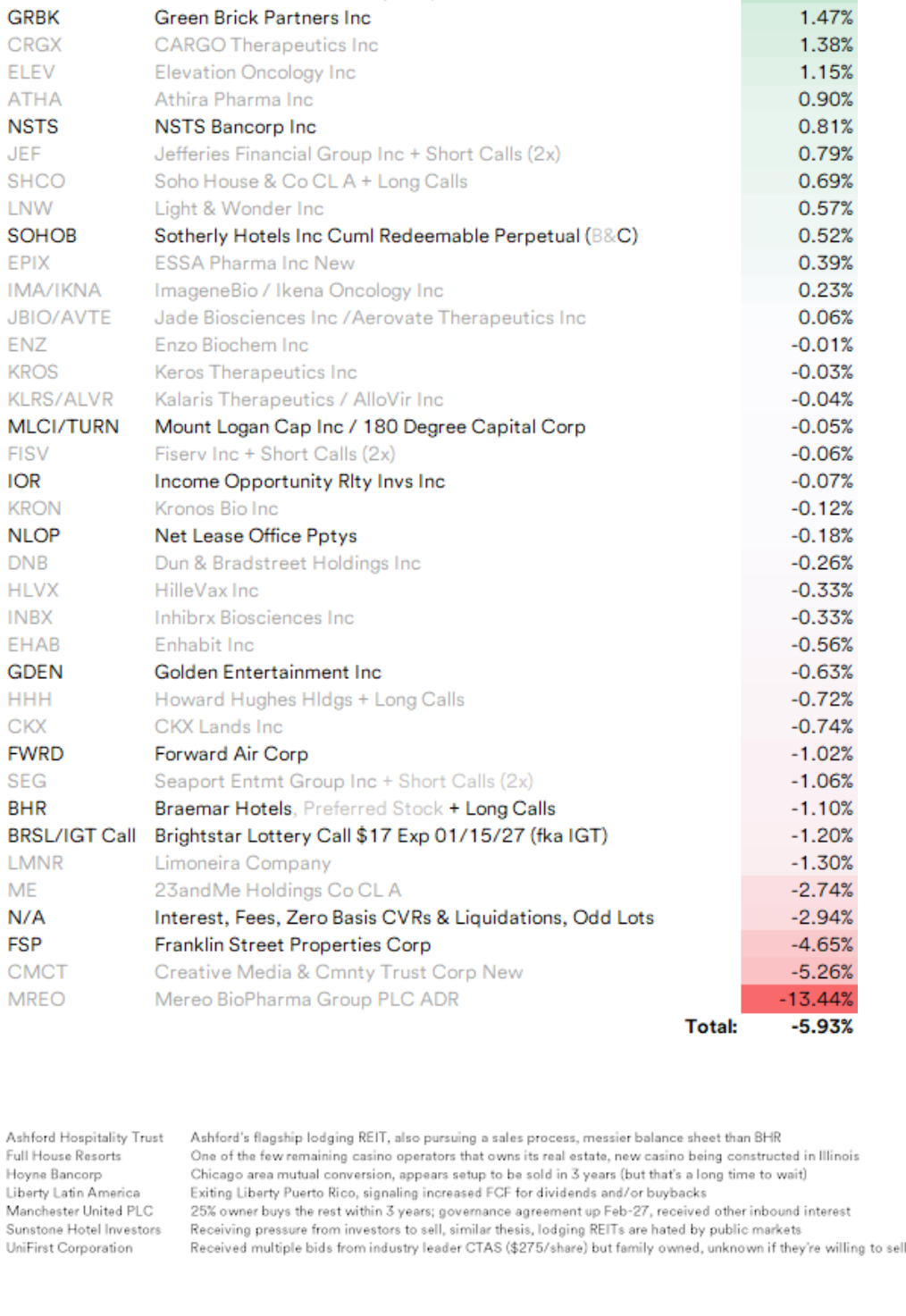
Closed Positions:

- **Mereo BioPharma Group (MREO)** earlier this week announced their two phase 3 trials for Setrusumab with partner Ultragenyx (RARE) did not meet their primary endpoints. That news sent the stock down 90%. I had coffee canned this position for several years, fully aware that it was a science based biotech which is generally against my rules when turning over rocks in the sector. Taking this one on the chin stings quite a bit.
- **Seaport Entertainment (SEG)** is an owner of real estate and entertainment assets in Lower Manhattan that was a spinoff of Howard Hughes (HHH) in 2024. I sold because don't want to be in the Ackman business anymore and losing their CEO was a blow to my thesis. Cash burning real estate plays relying on a low cap rates (the Seaport was originally built to a 4% cash yield) don't typically perform well in public markets. The current market price is currently valuing the equity at a fraction of replacement cost, but given the treatment of minority shareholders over at HHH, I'm skeptical SEG shareholders will enjoy the fruits of any eventual turnaround. The discount will be used against them when Ackman eventually acquires SEG back.
- The broken biotech basket is currently empty, during the last six months I sold or transactions closed for: **Athira Phrama (ATHA)** unfortunately before the recent great news on an asset sale, **CARGO Therapeutics (CRGX)**, **ESSA Pharma (EPIX)**, **HilleVax (HLVX)**, **Ikena Oncology (IKNA)**, **Mural Oncology (MURA)**, **Repare Therapeutics (RPTX)** and **Third Harmonic Bio (THRD)**.
- **Par Pacific Holdings (PARR)** was also a long term holding of mine, it had a great year as crack spreads widened again. I like the management team, they're rational allocators of capital, I might re-enter PARR the next time crack spreads tighten or some other shock hits the refining industry.
- I wrote some covered calls on two of my "catching knives" stocks in **Jefferies Financial Group (JEF)** and **Fiserv (FISV)**, both ended up rallying and my short calls were exercised.
- I also closed out **CKX Lands (CKX)**, **Enhabit (EHAB)**, **Soho House (SHCO)**, **Creative Media & Community Trust (CMCT)** and **Light & Wonder (LNW)** during the last six months.

Odds & Ends:

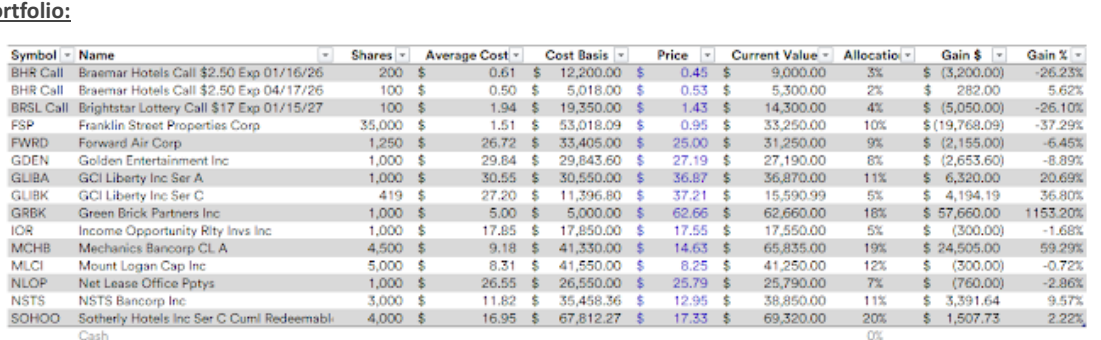
- I participated in the **Verve Therapeutics (VERV)** tender offer for the CVR. In June, Eli Lilly announced the acquisition of VERV, a gene editing biotechnology company targeting cardiovascular disease, for $10.50/share plus a CVR for up to $3/share. The CVR is tied to VERV's lead asset VERVE-102 beginning a Phase 3 trial. Eli Lilly is VERV's development partner on this asset, must have seen what they liked, shares traded around $11.10/share heading into the tender valuing the CVR at approximately $0.60.
- In July, I tried to put on a full position in **Synlogic (SYBX)**, a broken biotech that counts Cable Car Capital as a lead investor (Jacob Ma-Weaver published a letter outlining his process for busted biotech reverse mergers), but the stock ran away from me as rumors swirled that SYBX could merge with a crypto treasury company. I could no longer justify owning it in my biotech basket, never wrote it up because I never filled enough to own more than a tracking position.
- I bought **Solstice Advanced Materials (SOLS)** shortly after its spin from parent Honeywell (HON), mostly thanks to this Quick Value post. I flipped it a week or two later for a quick profit.

Performance Attribution:



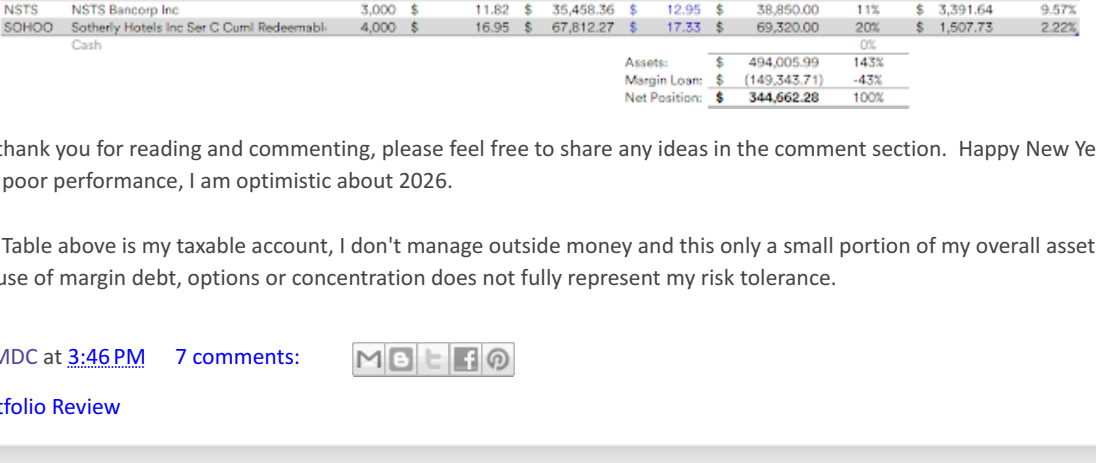
Symbol	Name	+/- %
PARR	Par Pacific Holdings Inc + Short Calls	6.33%
MCHB/HMST	Mechanics Bancorp CL A / HomeStreet Inc + Short Calls (2x)	4.01%
RPTX	Repare Therapeutics Inc	3.80%
MURA	Mural Oncology Pub Ltd Co	2.63%
GLIBA/K	GCI Liberty Inc Ser A & C	2.51%
THRD	Third Harmonic Bio Inc	2.38%
ACR	ACRES Commerical Realty Corp	2.27%
GRBK	Green Brick Partners Inc	1.47%
CRGX	CARGO Therapeutics Inc	1.38%
ELEV	Elevation Oncology Inc	1.15%
ATHA	Athira Pharma Inc	0.90%
NSTS	NSTS Bancorp Inc	0.81%
JEF	Jefferies Financial Group Inc + Short Calls (2x)	0.79%
SHCO	Soho House & Co CL A + Long Calls	0.69%
LNW	Light & Wonder Inc	0.57%
SOHOB	Sotherly Hotels Inc Cuml Redeemable Perpetual (B&C)	0.52%
EPIX	ESSA Pharma Inc New	0.39%
IMA/IKNA	ImageneBio / Ikena Oncology Inc	0.23%
JBIO/AVTE	Jade Biosciences Inc /Aerovate Therapeutics Inc	0.06%
ENZ	Enzo Biochem Inc	-0.01%
KROS	Keros Therapeutics Inc	-0.03%
KLRS/ALVR	Kalaris Therapeutics / AlloVir Inc	-0.04%
MLCI/TURN	Mount Logan Cap Inc / 180 Degree Capital Corp	-0.05%
FISV	Fiserv Inc + Short Calls (2x)	-0.06%
IOR	Income Opportunity Rlty Invs Inc	-0.07%
KRON	Kronos Bio Inc	-0.12%
NLOP	Net Lease Office Pptys	-0.18%
DNB	Dun & Bradstreet Holdings Inc	-0.26%
HLVX	HilleVax Inc	-0.33%
INBX	Inhibrx Biosciences Inc	-0.33%
EHAB	Enhabit Inc	-0.56%
GDEN	Golden Entertainment Inc	-0.63%
HHH	Howard Hughes Hldgs + Long Calls	-0.72%
CKX	CKX Lands Inc	-0.74%
FWRD	Forward Air Corp	-1.02%
SEG	Seaport Entmt Group Inc + Short Calls (2x)	-1.06%
BHR	Braemar Hotels, Preferred Stock + Long Calls	-1.10%
BRSL/IGT Call	Brightstar Lottery Call $17 Exp 01/15/27 (fka IGT)	-1.20%
LMNR	Limoneira Company	-1.30%
ME	23andMe Holdings Co CL A	-2.74%
N/A	Interest, Fees, Zero Basis CVRs & Liquidations, Odd Lots	-2.94%
FSP	Franklin Street Properties Corp	-4.65%
CMCT	Creative Media & Cmnty Trust Corp New	-5.26%
MREO	Mereo BioPharma Group PLC ADR	-13.44%
	Total:	-5.93%

Watchlist:



AHT	Ashford Hospitality Trust	Ashford's flagship lodging REIT, also pursuing a sales process, messier balance sheet than BHR
FLL	Full House Resorts	One of the few remaining casino operators that owns its real estate, new casino being constructed in Illinois
HYNE	Hoyne Bancorp	Chicago area mutual conversion, appears setup to be sold in 3 years (but that's a long time to wait)
LILA	Liberty Latin America	Exiting Liberty Puerto Rico, signaling increased FCF for dividends and/or buybacks
MANU	Manchester United PLC	25% owner buys the rest within 3 years; governance agreement up Feb-27, received other inbound interest
SHO	Sunstone Hotel Investors	Receiving pressure from investors to sell, similar thesis, lodging REITs are hated by public markets
UNF	UniFirst Corporation	Received multiple bids from industry leader CTAS ($275/share) but family owned, unknown if they're willing to sell

Current Portfolio:



Symbol	Name	Shares	Average Cost	Cost Basis	Price	Current Value	Allocation	Gain $	Gain %
BHR Call	Braemar Hotels Call $2.50 Exp 01/16/26	200	$ 0.61	$ 12,200.00	$ 0.45	$ 9,000.00	3%	$ (3,200.00)	-26.23%
BHR Call	Braemar Hotels Call $2.50 Exp 04/17/26	100	$ 0.50	$ 5,018.00	$ 0.53	$ 5,300.00	2%	$ 282.00	5.62%
BRSL Call	Brightstar Lottery Call $17 Exp 01/15/27	100	$ 1.94	$ 19,350.00	$ 1.43	$ 14,300.00	4%	$ (5,050.00)	-26.10%
FSP	Franklin Street Properties Corp	35,000	$ 1.51	$ 53,018.09	$ 0.95	$ 33,250.00	10%	$ (19,768.09)	-37.29%
FWRD	Forward Air Corp	1,250	$ 26.72	$ 33,405.00	$ 25.00	$ 31,250.00	9%	$ (2,155.00)	-6.45%
GDEN	Golden Entertainment Inc	1,000	$ 29.84	$ 29,843.60	$ 27.19	$ 27,190.00	8%	$ (2,653.60)	-8.89%
GLIBA	GCI Liberty Inc Ser A	1,000	$ 30.55	$ 30,550.00	$ 36.87	$ 36,870.00	11%	$ 6,320.00	20.69%
GLIBK	GCI Liberty Inc Ser C	419	$ 27.20	$ 11,396.80	$ 37.21	$ 15,590.99	5%	$ 4,194.19	36.80%
GRBK	Green Brick Partners Inc	1,000	$ 5.00	$ 5,000.00	$ 62.66	$ 62,660.00	18%	$ 57,660.00	1153.20%
IOR	Income Opportunity Rlty Invs Inc	1,000	$ 17.85	$ 17,850.00	$ 17.55	$ 17,550.00	5%	$ (300.00)	-1.68%
MCHB	Mechanics Bancorp CL A	4,500	$ 9.18	$ 41,330.00	$ 14.63	$ 65,835.00	19%	$ 24,505.00	59.29%
MLCI	Mount Logan Cap Inc	5,000	$ 8.31	$ 41,550.00	$ 8.25	$ 41,250.00	12%	$ (300.00)	-0.72%
NLOP	Net Lease Office Pptys	1,000	$ 26.55	$ 26,550.00	$ 25.79	$ 25,790.00	7%	$ (760.00)	-2.86%
NSTS	NSTS Bancorp Inc	3,000	$ 11.82	$ 35,458.36	$ 12.95	$ 38,850.00	11%	$ 3,391.64	9.57%
SOHOO	Sotherly Hotels Inc Ser C Cuml Redeemabl	4,000	$ 16.95	$ 67,812.27	$ 17.33	$ 69,320.00	20%	$ 1,507.73	2.22%
	Cash						0%		
					Assets:	$ 494,005.99	143%		
					Margin Loan:	$ (149,343.71)	-43%		
					Net Position:	$ 344,662.28	100%		

As always, thank you for reading and commenting, please feel free to share any ideas in the comment section. Happy New Year, despite my poor performance, I am optimistic about 2026.

Disclosure: Table above is my taxable account, I don't manage outside money and this only a small portion of my overall assets. As a result, the use of margin debt, options or concentration does not fully represent my risk tolerance.

Posted by MDC at 3:46 PM 7 comments:

Labels: Portfolio Review

Wednesday, November 19, 2025

Golden Entertainment: PropCo OpCo Split, Insufficient MBO Offer

Golden Entertainment (GDEN) (~$780MM market cap) is a regional casino operator primarily focused on the drive-to regional market, their flagship asset is the STRAT Hotel (fka the Stratosphere) focused on value oriented customers that opened in 1979 on the very north end of the strip. The rest of their assets cater to the locals markets in Las Vegas, Laughlin and Pahrump (town 60 miles west of Las Vegas where prostitution is legal), plus 72 taverns in the Las Vegas area functioning as mini-casinos with slot machine gaming being the primary draw. GDEN is one of the few remaining regional casino operators that still owns the majority of its real estate, most of the others have sold theirs to the gaming REITs.

On 11/6/25, after a long strategic alternatives process, Golden Entertainment announced a deal to sell their real estate in a sale-leaseback transaction to gaming REIT giant VICI Properties (VICI) (VICI was originally a 2017 spin of CZR, but has since diversified into other entertainment asset classes) while their OpCo is going private via an MBO transaction with CEO Blake Sartini (who founded GDEN ~30 years ago). VICI is buying the real estate of 7 of the 8 casinos (the 8th is already leased to a third party) at a 7.5% cap rate, with the initial annualized rent set at $87MM. GDEN shareholders are to receive 0.902 VICI shares for each share of GDEN (at today's VICI share price, that's $26.39/share) plus $2.75 in cash for the OpCo ($29.15 total versus $29.65 GDEN's share price today). On a trailing basis, GDEN has done $145.7MM in EBITDA over the last twelve months (this is now EBITDAR in Casino OpCo talk), subtracting out the new annualized rent equals ~$59MM in EBITDA, the $2.75/share represents $75MM, GDEN has some net cash after VICI assumes the debt, so Sartini is paying around ~1x EBITDA for the OpCo.

This low-ball offer has attracted the ire of two activists, friend of the blog Andrew Walker at Rangeley Capital wrote up a public letter and EverBay Capital has also express dismay at the offer for the OpCo being too low (additionally, Dalius @ Special Situation Investments has a great write-up, paywalled, but worth the sub). I'll try not to rehash their arguments, but a couple additional thoughts and historical context I'd add:

- The transaction as currently structured reminds me of when Tropicana Entertainment (TPCA) simultaneously sold their real estate and OpCo to Gaming & Leisure Properties (GLPI) and Eldorado Resorts (ERI, now part of CZR) respectively in 2018. TPCA was similarly a lower quality regional casino operator, had some tired properties, including some overlap with GDEN in Laughlin, NV. Eldorado paid a pre-synergies 6.6x EBITDA (5.0x post synergies) for the OpCo, it could be argued TPCA's assets were slightly higher quality than GDEN, however GLPI paid a 9.1% cap rate for the real estate, the cost of capital for the gaming REITs has tightened since 2018, but still points to the GDEN OpCo being worth more than ~1x EBITDA.
- The activists are pushing to separate the selling of the two pieces, if GDEN did this, it would remind me a bit of when Pinnacle Entertainment (PNK) sold their real estate to GLPI in 2016 and spun the OpCo out as new Pinnacle. After the spin it initially traded around 6x EBITDA (higher quality assets), and went on to double in the next year before eventually being acquired by PENN. Tax rules have changed regarding REIT conversions and real estate spins, not sure if its still a possible structure, but again, points to the GDEN OpCo being worth more than ~1x EBITDA.
- The tavern business GDEN is not a throw away asset, GDEN previously ran a distributed gaming business in Nevada and Montana that were sold in 2023 to Illinois based J&J Gaming (a peer of publicly traded Accel Entertainment (ACEL)) for 9x EBITDA. Distributed gaming is the better half of the business (GDEN has the capex, lease obligations, staffing etc), but J&J shares the slot-machine revenue with GDEN. The taverns do $25MM in EBITDA, its probably worth at least 3-4x EBITDA (finger in the air, small business type multiple), or the entire check Sartini is writing.
- Others have mentioned the undeveloped land as a potential value nugget, but with the current oversupply on the strip (where 9 acres are located near the STRAT) and a majority of the rest being located in Pahrump, I don't see a lot of value in the excess land.

There's a go-shop ending on 12/5/25, but it's unlikely to draw new bidders unless someone can partner with GLPI on a better proposal (unlikely that someone would be able to pay a higher price for the whole thing without a REIT partner). There's no minority of the majority vote here, management owns 30%, hopefully minority investors can shame Sartini into a bump. There's minimal downside other than opportunity cost as the stock trades close to the merger consideration and GDEN will continue to pay a $0.25/share quarterly dividend, the merger is expected to close mid-2026.

Disclosure: I own shares of GDEN

Posted by MDC at 12:19 PM 2 comments:

Labels: Golden Entertainment

Monday, November 10, 2025

Light & Wonder: Moving Primary Listing to ASX

Light & Wonder (LNW) ($6.5B market cap, $11.3B EV) is a Las Vegas based maker of video gaming terminals, shuffle machines, other table products, etc., plus they now own 100% of SciPlay (SCPL) after the 2023 buyout and have a growing iGaming unit. This is the old Scientific Games (SGMS), they sold their lottery business to Brookfield (BN) in 2022 for $5.8B and the name went with the lottery business.

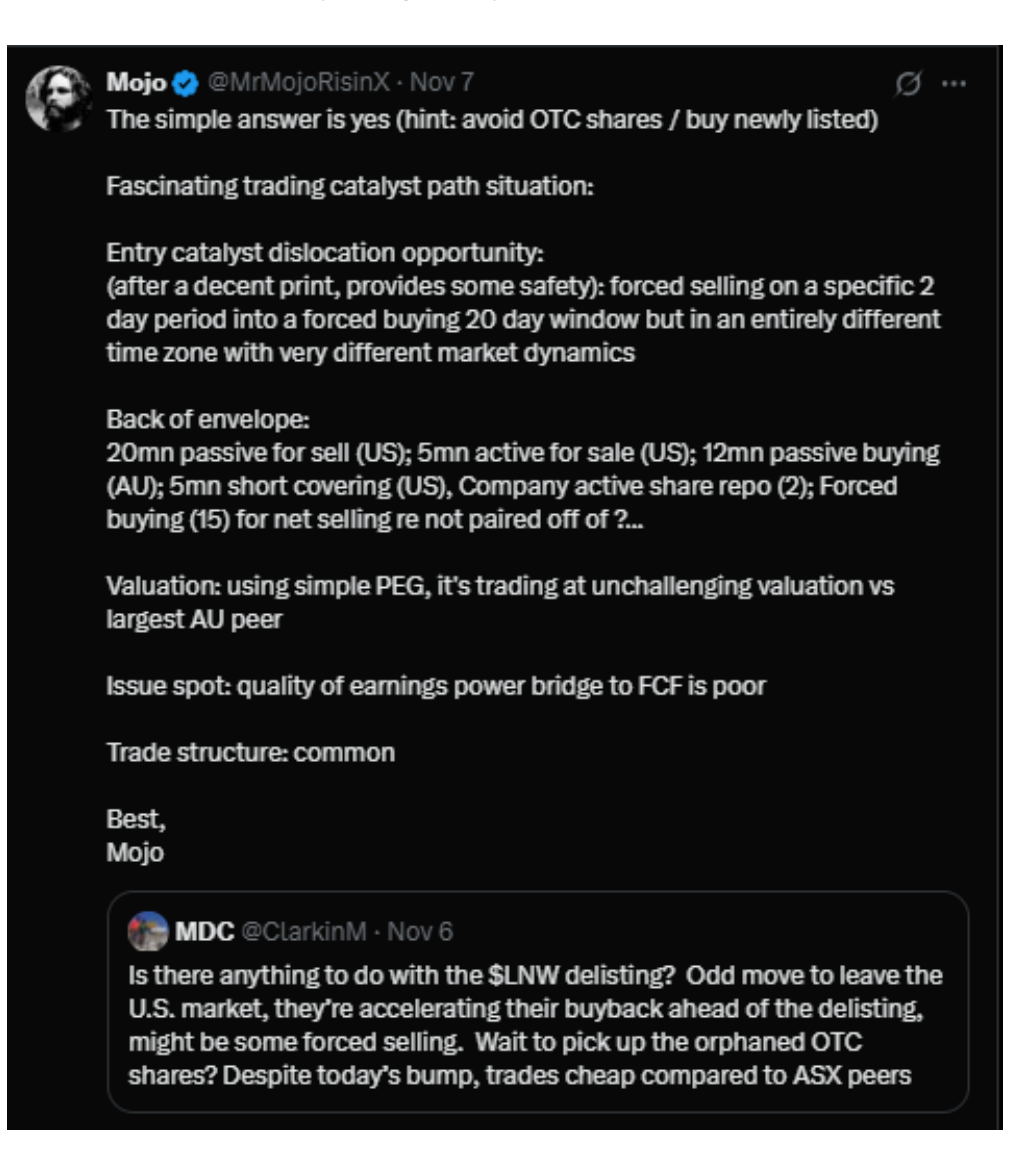
Light & Wonder is undertaking a strange move, the company is currently traded in both Australia on the ASX (which they only added as a secondary listing in 2023) and the U.S. on the NASDAQ, but after 11/12/25 (this coming Wednesday) the shares will be delisted from the NASDAQ, any remaining shares trading on the NASDAQ will move to OTC. A popular strategy in recent years to increase your multiple has been to move listings to the U.S., but here Light & Wonder is doing the reverse which piqued my interest. This is a global company, 2/3rds of their workforce is overseas, but only 5% of their revenue is generated from Australia, why pick Australia? In the company's own words:

> **Rationale**
> The decision to transition to a sole ASX primary listing reflects Light & Wonder's strategic focus on aligning our capital markets presence with our long-term growth plans and shareholder base. We are seeking to consolidate trading liquidity onto the ASX, a deep and liquid market that has a robust understanding of the gaming sector.

Translation: Multiples for gaming companies tend to be higher in Australia, for example, The Lottery Corporation (ASX: TLC) trades for 20x EBITDA, Brightstar (BRSL) trades for 7x EBITDA in the U.S., there some moving parts in there that may account for some of the difference, but they're largely similar businesses. Light & Wonder's closest peer, industry leader Aristocrat (ASX: ALL) trades for 14x NTM EBITDA, while LNW trades for 8x. Aristocrat has no net debt and is significantly larger, probably deserves to trade at some premium to LNW, but there's room for LNW's multiple to expand.

The next few days will likely have some volatility, there could be some forced selling in the U.S. as indices kick LNW out and then on the other end, forced buying as Australian indices include LNW. Additionally, LNW is accelerating its buyback, "we expect to utilize a meaningful share of the remaining available $735MM capacity prior to the end of 2025." Hard to tell how this will all shake out in the near term.

I posed the idea on Twitter/X and received a couple thoughtful responses:



Mojo @MrMojoRisinX · Nov 7

The simple answer is yes (hint: avoid OTC shares / buy newly listed)

Fascinating trading catalyst path situation:

Entry catalyst dislocation opportunity:
(after a decent print, provides some safety): forced selling on a specific 2 day period into a forced buying 20 day window but in an entirely different time zone with very different market dynamics

Back of envelope:
20mn passive for sell (US); 5mn active for sale (US); 12mn passive buying (AU); 5mn short covering (US), Company active share repo (2); Forced buying (15) for net selling re not paired off of ?...

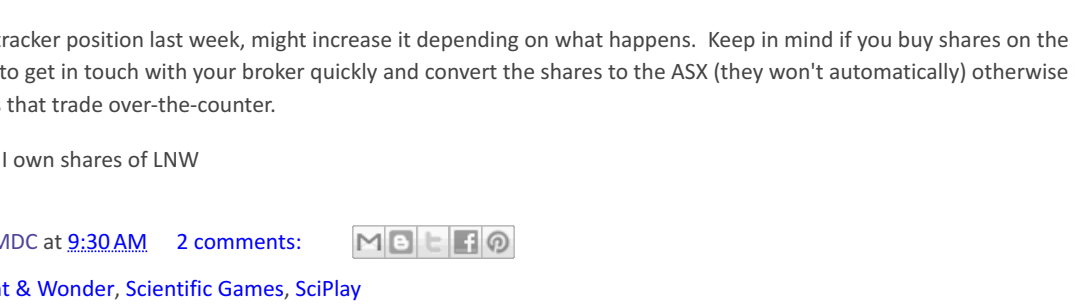
Valuation: using simple PEG, it's trading at unchallenging valuation vs largest AU peer

Issue spot: quality of earnings power bridge to FCF is poor

Trade structure: common

Best,
Mojo

> MDC @ClarkinM · Nov 6
> Is there anything to do with the $LNW delisting? Odd move to leave the U.S. market, they're accelerating their buyback ahead of the delisting, might be some forced selling. Wait to pick up the orphaned OTC shares? Despite today's bump, trades cheap compared to ASX peers



Morty @ItsProbablyLuck · Nov 6

I've been watching that one. It will be removed from Russell (and probably S&P?) indices at the close on Nov 12th. Either short now and buyback then or just buy into the selling assuming an attractive valuation.

Here's one notice:
research.ftserussell.com/products/index...

I bought a tracker position last week, might increase it depending on what happens. Keep in mind if you buy shares on the NASDAQ, you'll have to get in touch with your broker quickly and convert the shares to the ASX (they won't automatically) otherwise be stuck with shares that trade over-the-counter.

Disclosure: I own shares of LNW

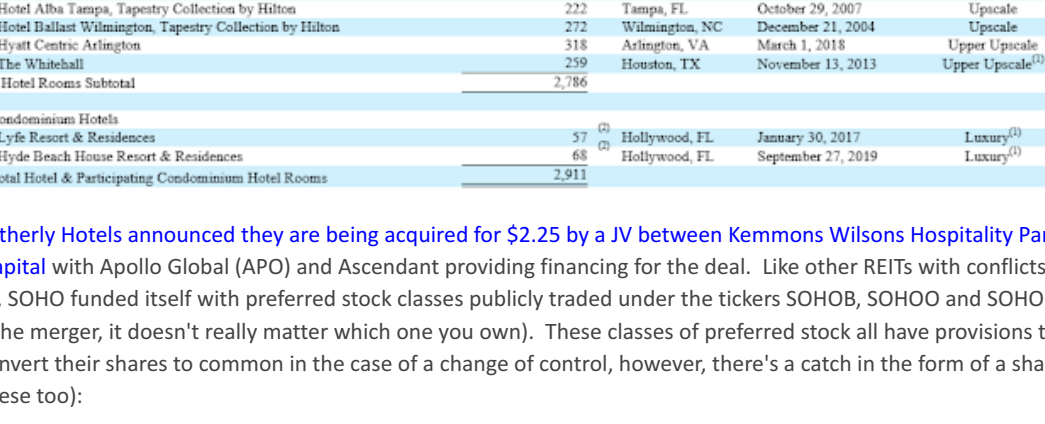
Posted by MDC at 9:30 AM 2 comments:

Labels: Light & Wonder, Scientific Games, SciPlay

Wednesday, November 5, 2025

Sotherly Hotels: Buyout, Preferred Share Conversion Arbitrage

Sotherly Hotels (SOHO) (~$108MM fully converted market cap) is a lodging REIT with 10 hotel properties located primarily in the southeastern part of the United States. The REIT is technically internally managed but each of the hotels is under a management agreement (remember, lodging REITs can't actually manage their hotels' operations) with a related party owned by the management team creating a conflict of interest. For that reason and others, SOHO has typically traded at a discount to peers. Their hotels:



Property	Number of Rooms	Location	Date of Acquisition	Chain/Class Designation
Wholly-owned Hotels				
The DeSoto	246	Savannah, GA	December 21, 2004	Upper Upscale(1)
DoubleTree by Hilton Jacksonville Riverfront	293	Jacksonville, FL	July 22, 2005	Upscale
DoubleTree by Hilton Laurel	208	Laurel, MD	December 21, 2004	Upscale
DoubleTree by Hilton Philadelphia Airport	331	Philadelphia, PA	December 21, 2004	Upscale
DoubleTree Resort by Hilton Hollywood Beach	311	Hollywood, FL	August 9, 2007	Upscale
Georgian Terrace	326	Atlanta, GA	March 27, 2014	Upper Upscale(1)
Hotel Alba Tampa, Tapestry Collection by Hilton	222	Tampa, FL	October 29, 2007	Upscale
Hotel Ballast Wilmington, Tapestry Collection by Hilton	272	Wilmington, NC	December 21, 2004	Upscale
Hyatt Centric Arlington	318	Arlington, VA	March 1, 2018	Upper Upscale
The Whitehall	259	Houston, TX	November 13, 2013	Upper Upscale(1)
Hotel Rooms Subtotal	2,786			
Condominium Hotels				
Lyfe Resort & Residences	57 (2)	Hollywood, FL	January 30, 2017	Luxury(1)
Hyde Beach House Resort & Residences	68 (2)	Hollywood, FL	September 27, 2019	Luxury(1)
Total Hotel & Participating Condominium Hotel Rooms	2,911			

On 10/27, Sotherly Hotels announced they are being acquired for $2.25 by a JV between Kemmons Wilsons Hospitality Partners and Ascendant Capital with Apollo Global (APO) and Ascendant providing financing for the deal. Like other REITs with conflicts that trade at a discount, SOHO funded itself with preferred stock classes publicly traded under the tickers SOHOB, SOHOO and SOHON (for purposes of the merger, it doesn't really matter which one you own). These classes of preferred stock all have provisions that allow holders to convert their shares to common in the case of a change of control, however, there's a catch in the form of a share cap (BHR's prefs have these too):

> Upon a change of control (as defined in our charter), holders of our Preferred Stock will have the right (unless, as provided in our charter, we have provided or provide notice of our election to exercise our special optional redemption right before the relevant date) to convert some or all of their shares of preferred stock into shares of our common stock (or equivalent value of alternative consideration). Upon such a conversion, holders will be limited to a maximum number of shares equal to the share cap, subject to adjustments. Each holder of Series B Preferred Stock is entitled to receive a maximum of 8.29187 shares of our common stock per share of Series B Preferred Stock, which may result in the holder receiving value that is less than the liquidation preference of the Series B Preferred Stock. Each holders of Series C Preferred Stock is entitled to receive a maximum of 8.50340 shares of our common stock per share of Series C Preferred Stock, which may result in the holder receiving value that is less than the liquidation preference of the Series C Preferred Stock. Each holder of Series D Preferred Stock is entitled to receive a maximum of 7.39645 shares of our common stock per share of Series D Preferred Stock, which may result in the holder receiving value that is less than the liquidation preference of the Series D Preferred Stock. In addition, those features of our Preferred Stock may have the effect of inhibiting or discouraging a third party from making an acquisition proposal for our Company or of delaying, deferring or preventing a change in control of our Company under circumstances that otherwise could provide the holders of shares of our common stock and shares of our Preferred Stock with the opportunity to realize a premium over the then current market price or that stockholders may otherwise believe is in their best interests.

There is a little more work involved here, you'll have to call your brokerage firm and elect to convert your preferred shares to common after the merger (if you don't, you'll get orphaned).

> Notice to Holders of Preferred Stock
>
> With respect to each series of the Company Preferred Stock, pursuant to the Charter, the Company will, within 15 days after the closing of the Merger, provide notice to the holders thereof that the closing of the Merger has occurred (the "**Preferred Notice**"). The Preferred Notice will include certain details with respect to the Merger and specify a date (to be no less than 20 days nor more than 35 days after the date of the Preferred Notice) by which the holders of the Company Preferred Stock may elect to exercise a right to convert some or all of the Company Preferred Stock held by such holder into the right to convert, subject to the terms and conditions contained in the Charter, including the share cap as defined therein, into Company Common Stock and receive the Per Company Share Merger Consideration.

The common stock trades at only a 12% IRR spread (assuming the deal closes 3/31, in the press release they guided to a Q1 close) indicating the risk of this not closing is pretty low (solid financing, pretty cheap price being paid too) given the illiquidity premium a micro cap arb situation deserves. The spread on the preferred shares is much wider (I'm still using a 3/31 close date, if you want to get more exact, include a delay for the conversion to close):

		Current	Share Cap	Buyout	Gross	IRR
SOHO	$	2.15	1	$ 2.25	4.7%	12.0%
SOHOB	$	16.50	8.29187	$ 18.66	13.1%	35.9%
SOHOO	$	16.94	8.50340	$ 19.13	12.9%	35.6%
SOHON	$	14.75	7.39645	$ 16.64	12.8%	35.2%

Why might this be? The preferreds are likely held by retail holders, they're relatively illiquid, there's an extra step involved and preferreds notoriously get screwed in deals like this one. Related, the company has deferred the previously announced Q4 preferred dividend and is suspending future preferred dividends, already creating friction. This is one you'll need to monitor and not forget, the buyers are incentivized to make converting your shares difficult. But at a 30+% IRR, seems like a pretty attractive risk/return to me.

Disclosure: I own shares of SOHOB and SOHOO (just which ones my buy order filled, again, doesn't really matter which class you pick)

Posted by MDC at 1:45 PM 12 comments:

Labels: Sotherly Hotels

Monday, November 3, 2025

Catching Knives w/ FI, FWRD & JEF

Quick update, I've been quiet for a bit, maybe due to some writer's block, maybe because I continue to underperform the market by an embarrassing amount. Clearly, I've missed the recent big market trends, but even in my niche I've underperformed, just feels like playing a game of Battleship where you're just missing the targets. Anyway, here are a few new tracker positions I've taken where I admittedly have few original thoughts to add to the greater market zeitgeist.

Three new tracker positions:

Fiserv (FI) ($35.4B market cap, $65.7B enterprise value) is a large legacy merchant acceptance business (the old First Data) paired with a decent but no-growth core account software provider to small and medium sized community banks. These types of legacy fintech businesses usually have poor reputations with their clients, the view is they've levered up and no longer invest in their product or innovate, rather they rest on their laurels knowing their products are sticky and generally not worth the risk of transitioning away to a new provider. Fiserv apparently pushed that narrative to the extreme and clients are fighting back on extra fees attached to their Clover product (point of sale device, plus a software platform for small businesses) bringing their previously issued guidance into question. New CEO, Mike Lyons (joined from PNC, former CEO Fran Bisignano left to join the Trump Administration running SSA and the IRS) pressed the reset button on the company's strategy, management team (hiring new co-presidents for each business segment and a new CFO) and guidance. Shares dropped roughly in half last week, quite shocking for an real business and S&P 500 component.

Investor trust has been broken for now, but the reset seems to be the right strategy for the long term (?), this is still a non-discretionary product that should trade for more than ~7.5x adjusted earnings (much of the adjustment is non-cash amortization expense from the First Data merger). Fiserv has historically been a levered equity buyback story, hopefully they continue to buyback shares down here (they bought back $6.7B in the last twelves months at significantly higher prices) and avoid the trap of management teams hoarding cash just when the stock becomes cheap.

Forward Air (FWRD) ($730MM market cap, $2.4B enterprise value) is primarily an asset-lite (relies on independent contract drivers) less-than-truckload transportation services provider that historically had a nice niche in airport-to-airport routes. They diversified through acquisitions over the years to include truckload, intermodal drayage (between ports/railyards and other points in the supply chain) services and most recently with their ill-fated acquisition of Omni Logistics, a 3PL service provider. The Omni Logistics acquisition, announced in 2023 but closed in early 2024, was done at peak post-covid earnings and a peak multiple of 18x EBITDA (which was higher than FWRD's multiple at the time). The market hated the acquisition from the start, crashing the stock, Forward Air management tried to backout of the transaction but eventually closed it with a small price cut.

In January, Forward Air announced it was conducting a strategic review, there have been reports of multiple (5-6 financial buyers) bidders being interested including Clearlake Capital Group which owns a 12.6% stake in the business. The strategic process is long in the tooth at this point, Axios recently reported the process is at an impasse due to a wide bid-ask spread. Shares have traded down as the market seems skeptical of a deal happening, but a turnaround effort is probably best conducted in private hands and activist shareholders will continue to pressure management to sell. I'm hoping a deal can still be reached as the company has yet to call off the sale process, despite the Axios report being a couple weeks old now.

There's quite a bit of debt on FWRD, it's on the riskier side, but at $18.25/share, its trading at 7.7x consensus NTM EBITDA of $315MM. Tariffs and supply chain disruptions, plus a general shipping recession is a concern, but on more normalized earnings, this business is even cheaper and could be a home run for a PE buyer.

Jefferies Financial Group (JEF) ($10.8B market cap) is the largest non-bank holdco investment bank in the U.S. which was recently ensnarled in the First Brands bankruptcy. For those outside of the leveraged finance space, First Brands is a privately held (and non-PE sponsor) rollup of auto parts products that recently went bankrupt after a refinancing of their term loan was paused due to a non-receipt of a quality of earnings report and subsequently the company stopped making payments on their factoring debt. There's some whiffs of fraud here, First Brands potentially pledged the same receivables multiple times and used a lot of off balance sheet financing that was only weakly disclosed to their term loan lenders (although if credit analysts looked at the cashflow statement, could see that something was off). Jefferies was First Brands' banker on the failed term loan refinancing and a fund managed by Jefferies was overly exposed to the factoring debt, causing into question the level of due diligence they performed prior to the engagement.

In the wake of the news, people started comparing Jefferies to B. Riley (RILY) and other runs on financial institutions, but this situation seems pretty contained, Jefferies has limited actual exposure to First Brands and the market will likely forget about it in a quarter or two. Unlike the other two above, Jefferies isn't as absolutely cheap at 13.5x forward consensus earnings for a cyclical business, but with the continued tailwinds of increased M&A and open credit markets, hard to see this situation (unless you disagree that its a one-off) having a lasting impact.

Disclosure: I own shares of FI, FWRD, JEF

Posted by MDC at 1:18 PM 8 comments:

Labels: Fiserv, Forward Air, Jefferies

Friday, September 5, 2025

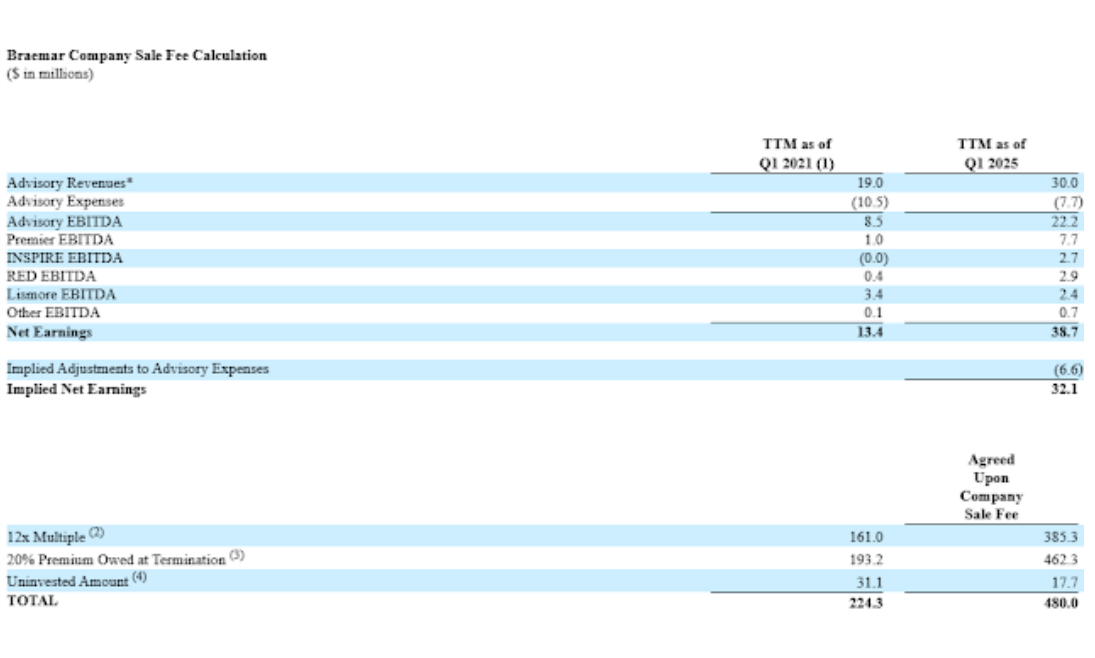
Braemar Hotels & Resort: Gross Asset Management Contract, Initiated Sales Process

It's probably a sign of the times, have to dip in quality to find some ideas and this pitch makes me throw up a little in my mouth.

Braemar Hotels & Resorts (BHR) (~$200MM market cap, ~$2.1B enterprise value) is a luxury hotel REIT that was formerly known as Ashford Prime, a spin of Ashford Hospitality Trust (AHT) in 2013. BHR is externally managed by Ashford Inc (formerly AINC, went private via a reverse/forward split last year), the creation of the infamous Monty Bennett. Hotel REITs are a challenging business because they need to outsource the hotel management function to a third party to maintain REIT status, then also pay for the franchise flag, throw on top of that an egregious external asset management contract and BHR never had a chance. The only reason these external Ashford hotel REITs exist is because they were all originally under one roof before AINC was spun from AHT. I don't think this structure would have gotten public otherwise.

Again, skipping a lot of history here, there has been numerous activists at BHR trying various ways to remove Ashford from an otherwise healthy portfolio of luxury hotels. Finally, on August 26th, the REIT officially waived the white flag and announced the initiation of a sale process.

In a typical external REIT management agreement, there might be a 3x termination fee, not so with BHR, Ashford has negotiated a "discount" to their termination fee with the board to facilitate a sale:



Braemar Company Sale Fee Calculation
($ in millions)

	TTM as of Q1 2021 (1)	TTM as of Q1 2025
Advisory Revenues*	19.0	30.0
Advisory Expenses	(10.5)	(7.7)
Advisory EBITDA	8.5	22.2
Premier EBITDA	1.0	7.7
INSPIRE EBITDA	(0.0)	2.7
RED EBITDA	0.4	2.9
Lismore EBITDA	3.4	2.4
Other EBITDA	0.1	0.7
Net Earnings	13.4	38.7
Implied Adjustments to Advisory Expenses		(6.6)
Implied Net Earnings		32.1
		Agreed Upon Company Sale Fee
12x Multiple (2)	161.0	385.3
20% Premium Owed at Termination (3)	193.2	462.3
Uninvested Amount (4)	31.1	17.7
TOTAL	224.3	480.0

Their termination fee is 12x PLUS another 20% on top of that, again truly gross and no way AINC would have come public without being a spinout of its blood sucking host AHT. Bennett would later steal AINC by issuing himself preferred stock and draining all value from minority AINC shareholders. While I just wrote up not being sure about the incentives in the TURN/MCLI deal, here they're squarely in our face that Ashford only cares about themselves and views this as an opportune time to get 14-15 years worth of management fees upfront.

However, I still think there might be a trade here, albeit a very risky one. This sale process rhymes a bit with Bluerock Residential Growth REIT (fka BRG, now BHM) where you had an externally managed REIT with a messy balance sheet that effectively made the equity a stub. Any positive surprise in the sales process produced exceptional returns for the stub. Below is my quick back of the envelope math on the potential outcomes of a BHR sale based on various cap rates:

		Cap Rate	Target	Upside
BHR Price	$ 2.94	5.00%	$ 7.74	163%
Shares Outstanding	73.6	5.25%	$ 6.92	135%
Market Cap	$ 216.38	5.50%	$ 6.18	110%
		5.75%	$ 5.50	87%
AINC Termination Fee	$ 505.00	6.00%	$ 4.03	37%
Debt	$ 1,172.00	6.25%	$ 2.80	-5%
Preferred Stock	$ 473.00	6.50%	$ 1.66	-44%
Working Capital	$ (68.00)	6.75%	$ 0.61	-79%
Clancy Hotel Sale	$ (115.00)			
Enterprise Value	$ 2,183.38			
TTM NOI	$ 135.80			
Implied Cap Rate	6.22%			
Pref Convert Fulcrum	$ 323.10			
SO Post Conversion	157.90			

Most of the value in the portfolio is in a handful of luxury hotels, 4 under the Ritz-Carlton flag (Lake Tahoe, Puerto Rico, Sarasota and St. Thomas), 1 under the Four Seasons (Scottsdale). Luxury hotels have continued to perform well through the covid bullwhip with some luxury hotels trading hands well within the range above. I've also included the $25MM termination fee to rid the buyer of Remington, Ashford's hotel management arm, plus the potential for the preferred stock to convert to common above $4.39/share. Again, it feels a little gross to own this one, Ashford is really incentivized to only get a price above their termination fee so we're counting on the independent board members (one new board member already came out publicly they were unaware of the termination fee negotiation) to keep the process honest. But I think it's an interesting bet in small size.

Disclosure: I own shares of BHR plus a few call options

Posted by MDC at 8:43 AM 9 comments:

Labels: Ashford Hospitality Trust, Ashford Inc, Braemar Hotels

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Thursday, September 4, 2025

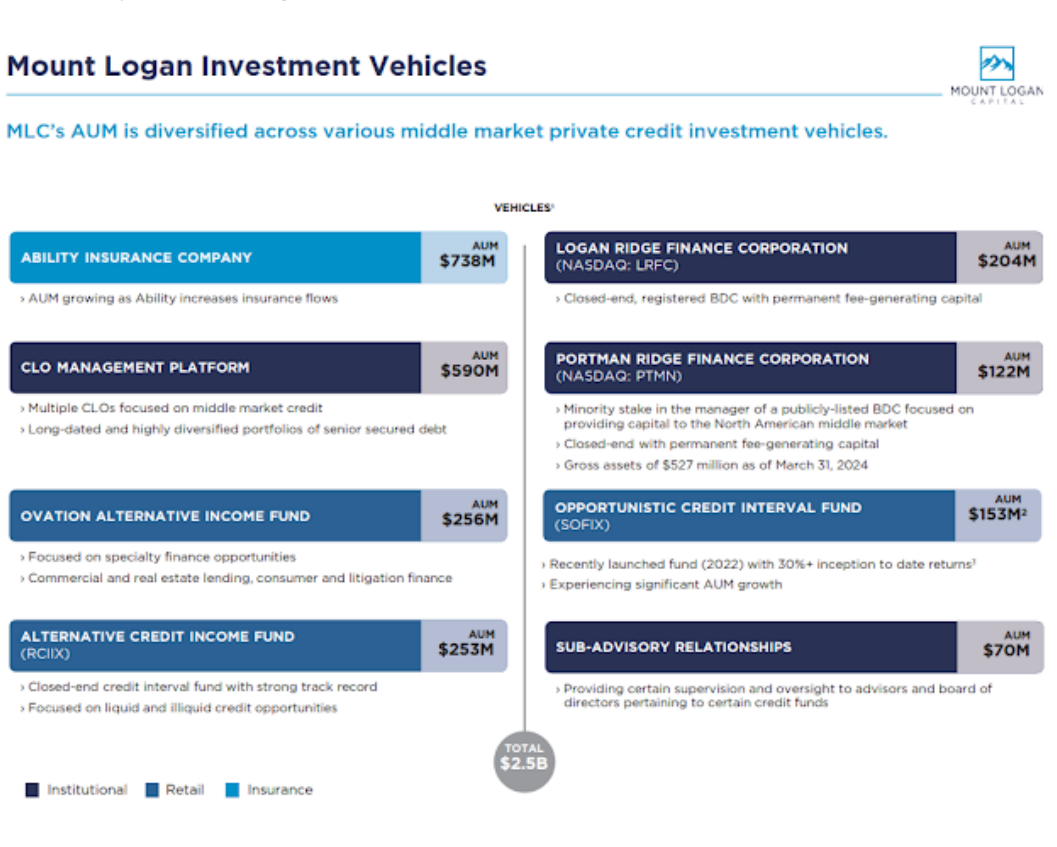
180 Degree Capital: Merger w/ Mount Logan Capital, Tender Offer, Questions Remain

180 Degree Capital (TURN) is a microcap (~$46MM market cap) closed end fund (CEF) pursuing an activist strategy in microcap stocks. Before 2017, some of you might remember the name, it was a venture capital fund known as Harris & Harris Inc (TINY). There are a few similar ones today, these almost never work. CEO Kevin Rendino took over, changed the strategy, but was hampered by their legacy venture portfolio weighting down overall returns. The last few years have been a difficult time for microcap investing, large caps seem to outperform year in and year out, but it's especially difficult to outperform if you're running a subscale internally managed CEF. Expenses create too high of a hurdle to justify a small fund's existence.

I'm going to skip some background but TURN trades at a discount to NAV (not uncommon for CEFs) and has for some time. Naturally activists showed up (Marlton Partners and others) and pushed the company to close the discount by repurchasing shares, liquidating and/or distributing the underlying public equities in TURN's portfolio in-kind to shareholders. To management's credit, TURN did implement a "Discount Management Program", but to limited success.

In January of this year, TURN entered into a reverse merger with private credit manager, Mount Logan Capital Inc (trades as MLC on Cboe Canada) valuing TURN at NAV (later revised to 110%) and Mount Logan at $67.4MM. This transaction potentially fits the "balance sheet to income statement transformation" theme where the market is currently valuing TURN at a multiple of book value and in the future will judge Mount Logan Capital on an earnings basis. Marlton Partners pushed back on the transaction, there was even a counter proposal from another CEF, Source Capital (SOR), at NAV, but TURN rebuffed that deal. Shareholders on both sides of the transaction have now approved the reverse merger with Mount Logan Capital, which should close sometime this month.

Who is Mount Logan Capital? It is an affiliate of BC Partners, where BC Partners credit team's executive management team also doubles as Mount Logan Capital's management team subject to an expense sharing agreement (so not quite an externally managed company). Mount Logan has a random assortment of low-quality asset management contracts plus an owned insurance company where they're managing the float for a total of $2.8B (the graphic is from last November), but that number is puffed up a bit by the insurance AUM and a couple run off management mandates.



Mount Logan Investment Vehicles

MLC's AUM is diversified across various middle market private credit investment vehicles.

VEHICLES

ABILITY INSURANCE COMPANY — AUM $738M
- AUM growing as Ability increases insurance flows

CLO MANAGEMENT PLATFORM — AUM $590M
- Multiple CLOs focused on middle market credit
- Long-dated and highly diversified portfolios of senior secured debt

OVATION ALTERNATIVE INCOME FUND — AUM $256M
- Focused on specialty finance opportunities
- Commercial and real estate lending, consumer and litigation finance

ALTERNATIVE CREDIT INCOME FUND (RCIIX) — AUM $253M
- Closed-end credit interval fund with strong track record
- Focused on liquid and illiquid credit opportunities

LOGAN RIDGE FINANCE CORPORATION (NASDAQ: LRFC) — AUM $204M
- Closed-end, registered BDC with permanent fee-generating capital

PORTMAN RIDGE FINANCE CORPORATION (NASDAQ: PTMN) — AUM $122M
- Minority stake in the manager of a publicly-listed BDC focused on providing capital to the North American middle market
- Closed-end with permanent fee-generating capital
- Gross assets of $527 million as of March 31, 2024

OPPORTUNISTIC CREDIT INTERVAL FUND (SOFIX) — AUM $153M
- Recently launched fund (2022) with 30%+ inception to date returns
- Experiencing significant AUM growth

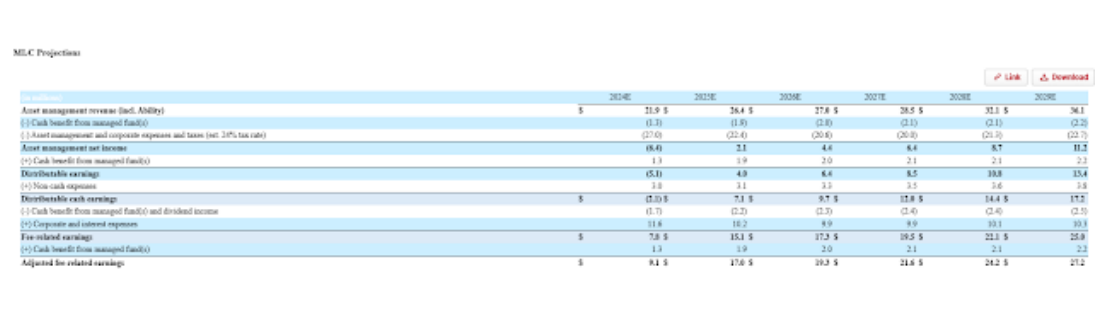
SUB-ADVISORY RELATIONSHIPS — AUM $70M
- Providing certain supervision and oversight to advisors and board of directors pertaining to certain credit funds

TOTAL $2.5B

Source: November 2024 Investor Presentation

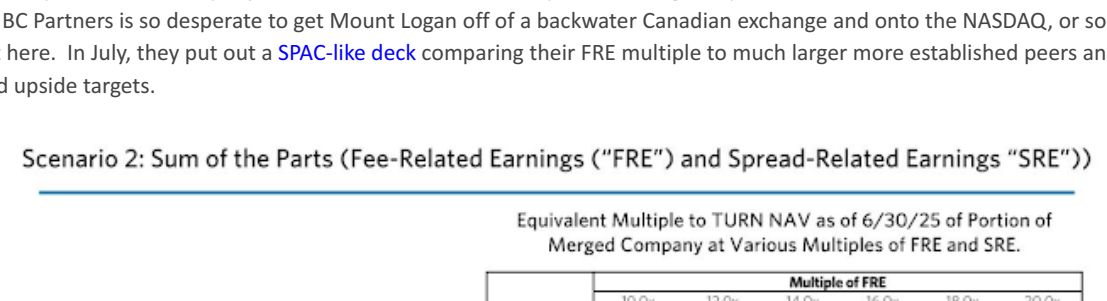
It is unclear to me why Mount Logan exists separate from BC Partners which has its own credit platform and the delineation between the two on future asset management contracts. Management owns some shares here but not really enough to prioritize Mount Logan or become exceptionally rich if it is successful. The incentives are hard to tease out, which likely means they're not well aligned with outside minority shareholders. The relationship with BC Partners is strange, the two BDCs (PTMN and LRFC) recently merged, LRFC was being managed by Mount Logan Capital and PTMN by Sierra Crest Investment Management (a JV where BC Partners is the majority owner, Mount Logan Capital held a minority stake), the combined BDC was rebranded as BCP Investment Corp (BCIC) and will be managed by Sierra Crest. What's the point of Mount Logan?

In the merger proxy, Mount Logan management did put forth some pretty ambitious fee-related earnings projections that seems difficult to achieve:



MLC Projections

If the 2026 numbers are to be believed, the $67.4MM valuation put on Mount Logan in the merger (actually less now that its been revised) is only 3.5x FRE (heavily adjusted) and doesn't count the spread earnings they receive from the owned insurance subsidiary. So either BC Partners is so desperate to get Mount Logan off of a backwater Canadian exchange and onto the NASDAQ, or something isn't right here. In July, they put out a SPAC-like deck comparing their FRE multiple to much larger more established peers and includes some wild upside targets.



Scenario 2: Sum of the Parts (Fee-Related Earnings ("FRE") and Spread-Related Earnings "SRE"))

Equivalent Multiple to TURN NAV as of 6/30/25 of Portion of Merged Company at Various Multiples of FRE and SRE.

Multiple of FRE

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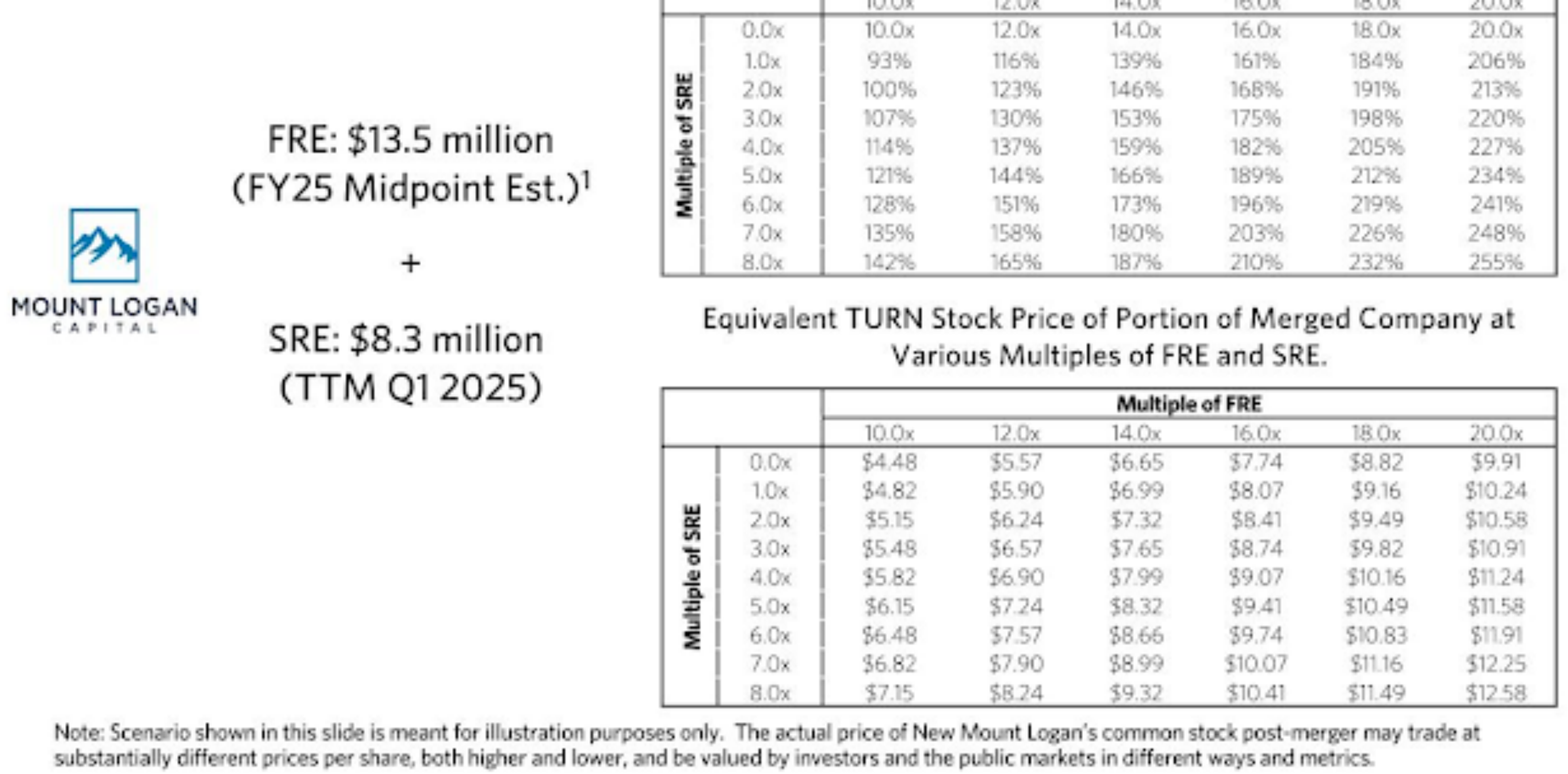

FRE: $13.5 million
(FY25 Midpoint Est.)[1]

+

SRE: $8.3 million
(TTM Q1 2025)

Multiple of SRE						
0.0x	10.0x	12.0x	14.0x	16.0x	18.0x	20.0x
1.0x	93%	116%	139%	161%	184%	206%
2.0x	100%	123%	146%	168%	191%	213%
3.0x	107%	130%	153%	175%	198%	220%
4.0x	114%	137%	159%	182%	205%	227%
5.0x	121%	144%	166%	189%	212%	234%
6.0x	128%	151%	173%	196%	219%	241%
7.0x	135%	158%	180%	203%	226%	248%
8.0x	142%	165%	187%	210%	232%	255%

Equivalent TURN Stock Price of Portion of Merged Company at Various Multiples of FRE and SRE.

	Multiple of FRE					
Multiple of SRE	10.0x	12.0x	14.0x	16.0x	18.0x	20.0x
0.0x	$4.48	$5.57	$6.65	$7.74	$8.82	$9.91
1.0x	$4.82	$5.90	$6.99	$8.07	$9.16	$10.24
2.0x	$5.15	$6.24	$7.32	$8.41	$9.49	$10.58
3.0x	$5.48	$6.57	$7.65	$8.74	$9.82	$10.91
4.0x	$5.82	$6.90	$7.99	$9.07	$10.16	$11.24
5.0x	$6.15	$7.24	$8.32	$9.41	$10.49	$11.58
6.0x	$6.48	$7.57	$8.66	$9.74	$10.83	$11.91
7.0x	$6.82	$7.90	$8.99	$10.07	$11.16	$12.25
8.0x	$7.15	$8.24	$9.32	$10.41	$11.49	$12.58

Note: Scenario shown in this slide is meant for illustration purposes only. The actual price of New Mount Logan's common stock post-merger may trade at substantially different prices per share, both higher and lower, and be valued by investors and the public markets in different ways and metrics.

Luckily, as part of the revised merger agreement, new Mount Logan Capital (will trade under the ticker MCLI) has agreed to a $15MM tender offer (presumably funded by liquidating TURN's portfolio) after closing at NAV (~$5/share) for any shareholders that don't want to go along for the ride. It's a bit of a free look to see if MCLI trades better on a U.S. exchange. Additionally, they've committed to a $10MM share repurchase program post-tender offer to support the stock and provide liquidity.

Small-cap BDC/credit managers haven't done particularly well in public markets despite the permanent capital angle, two that come immediately to mind are Fifth Street Asset Management (FSAM) and Medley Management (MDLY). Interested in hearing others thoughts, especially if you have a strong view on the future of Mount Logan. I own a bit, mostly hoping it trades well out of the gate, if not, there's some support from the tender offer (management has committed to not participating).

Disclosure: I own shares in TURN

Posted by MDC at 11:42 AM   28 comments:

Labels: 180 Degree Capital, Mount Logan

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