



Greenskeeper
ASSET MANAGEMENT INC.

Dr. George Athanassakos – Value Investing Seminar
June 2, 2023

PORTFOLIO MANAGER

Founded GreensKeeper (2010)

Former Partner & Investment Banker with Cormark Securities (2002-2010)

Former Partner & Lawyer (M&A, Corporate Finance) at Aird & Berlis LLP (1995-2002)

EDUCATION - PROFESSIONAL DESIGNATIONS:

Advising Representative, 2014

Associate Advising Representative, 2011

Canadian Investment Manager, 2009

Admitted to the Ontario Bar, 1997

J.D., Osgoode Hall Law School, 1995

M.B.A. (Honours), Schulich School of Business, York University, 1995

B.Sc. (Honours), Mathematics, Western University, 1991

Michael McCloskey
Founder, President &
Chief Investment Officer
B.Sc., JD, MBA, CIM, AR



GREENSKEEPER ASSET MANAGEMENT

“Value stocks are about as exciting as watching grass grow. But have you ever noticed just how much your grass grows in a week?”

Christopher Browne
Tweedy, Browne Company LLC

What is a Stock Worth?

“Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.”

Berkshire Hathaway – Owner’s Manual



Owner Earnings

WIKIPEDIA

Owner earnings

Owner earnings is a valuation method detailed by Warren Buffett in Berkshire Hathaway's annual report in 1986.^[1] He stated that the value of a company is simply the total of the net cash flows (**owner earnings**) expected to occur over the life of the business, minus any reinvestment of earnings.^[2]

Buffett defined owner earnings as follows:

"These represent (a) reported earnings plus (b) depreciation, depletion, amortization, and certain other non-cash charges...less (c) the average annual amount of capitalized expenditures for plant and equipment, etc. that the business requires to fully maintain its long-term competitive position and its unit volume...Our owner-earnings equation does not yield the deceptively precise figures provided by GAAP, since (c) must be a guess - and one sometimes very difficult to make. Despite this problem, we consider the owner earnings figure, not the GAAP figure, to be the relevant item for valuation purposes...All of this points up the absurdity of the 'cash flow' numbers that are often set forth in Wall Street reports. These numbers routinely include (a) plus (b) - but do not subtract (c)."^[1]

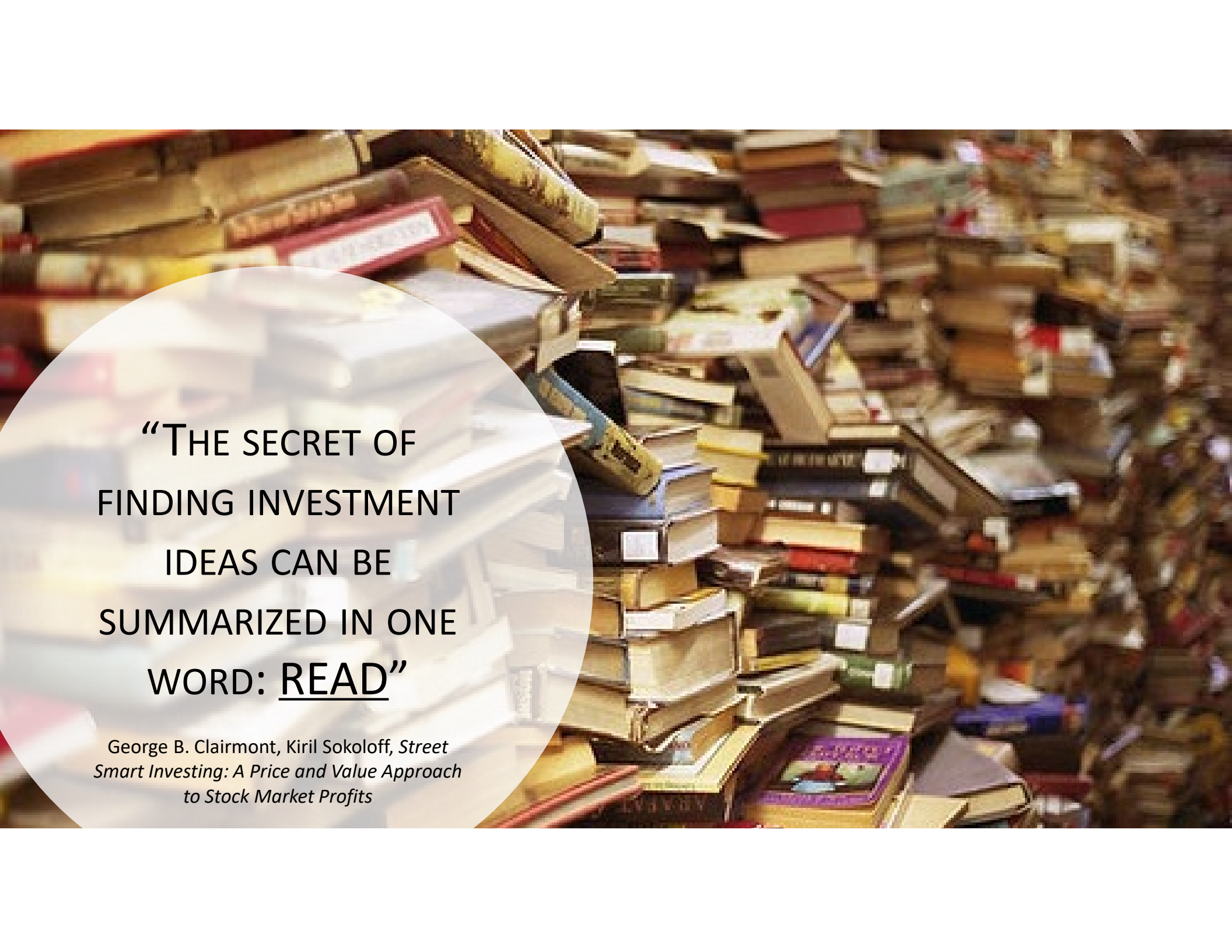
What Drives P/E Multiples?

Determining a Fair P/E

There are several formulas for calculating the justified price/earnings ratio, but the one I find most useful is this:

$$\frac{P}{E} = \frac{1 - G/ROE}{COE - G}$$

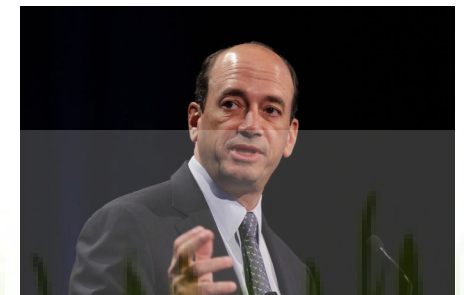
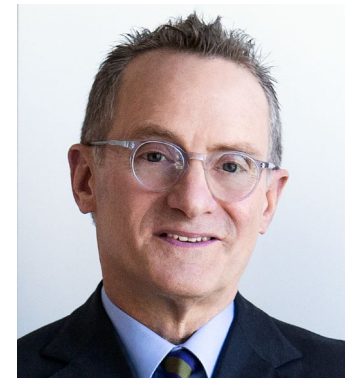
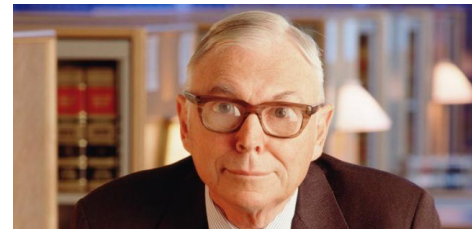
MORNINGSTAR®
StockInvestor™
Investing in the wide-moat stocks of today and tomorrow



“THE SECRET OF
FINDING INVESTMENT
IDEAS CAN BE
SUMMARIZED IN ONE
WORD: READ”

George B. Clairmont, Kiril Sokoloff, *Street
Smart Investing: A Price and Value Approach
to Stock Market Profits*

Ideas also come from studying other great investors



WIDE MOAT INVESTING

Finding companies that possess **sustainable competitive advantages**

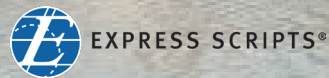
Intangible Assets



Scale



Switching Costs



Network Effects



Multiple Moats



Why High ROICs Matter



Third-Party Capital

@3rdPartyCap

Follow

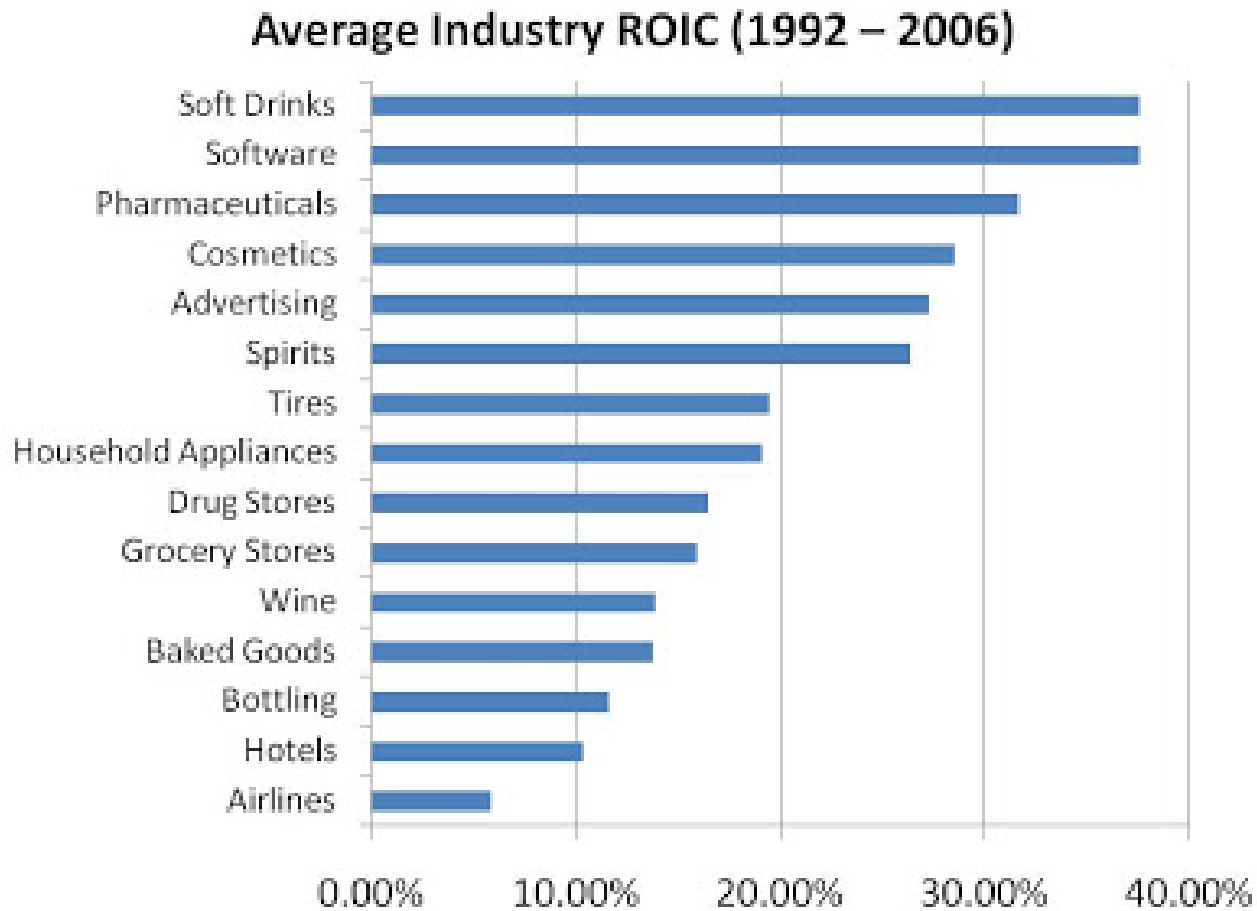
Lots of opportunity in the markets if you understand this graphic...

EXHIBIT 2.4 Payout Ratio Varies with Growth and ROIC

Cash flow/earnings

Growth	3%	53%	67%	77%	88%
	6%	14%	33%	54%	76%
	9%	-28%	0%	31%	64%
		7%	9%	13%	25%
		ROIC			

INDUSTRY ROICs

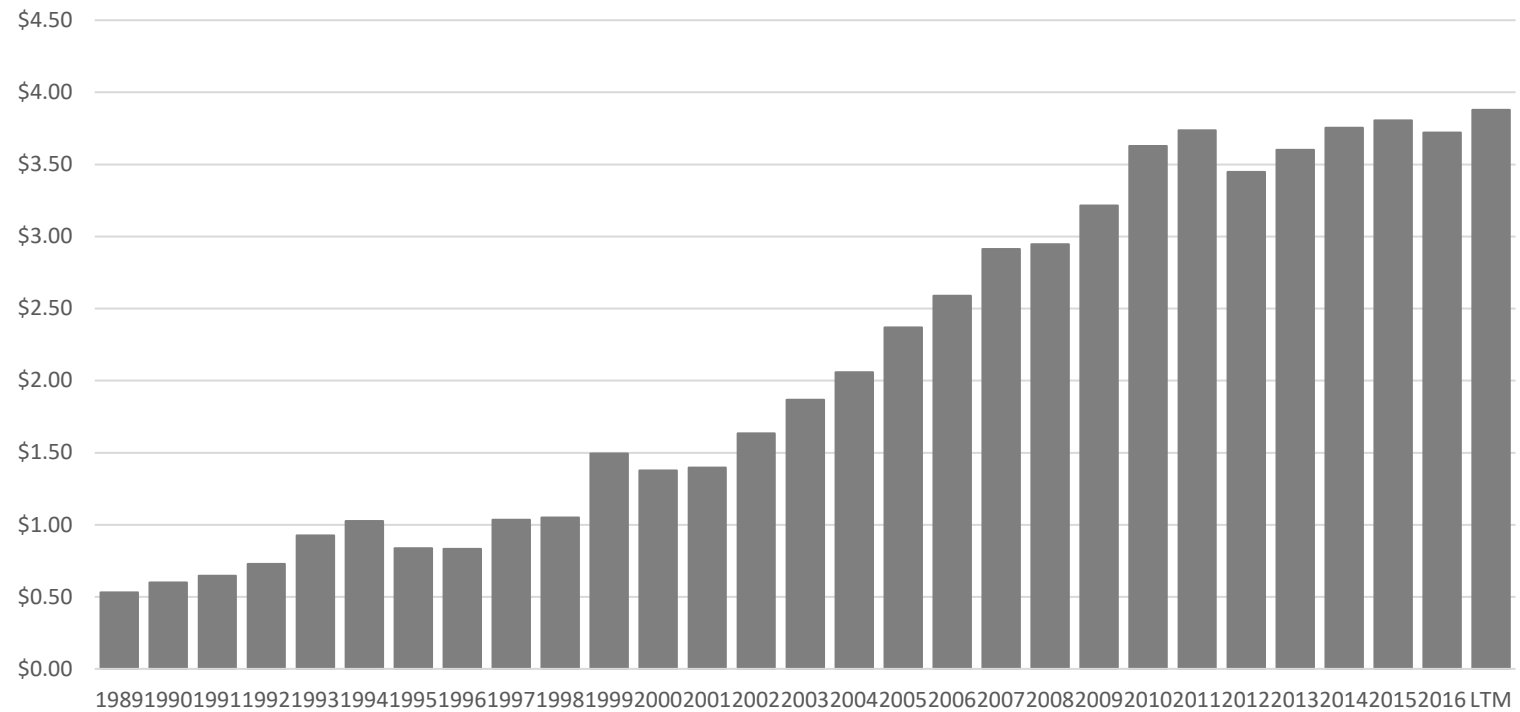


Source: Michael Porter; Barel Karsan

GREAT BUSINESS



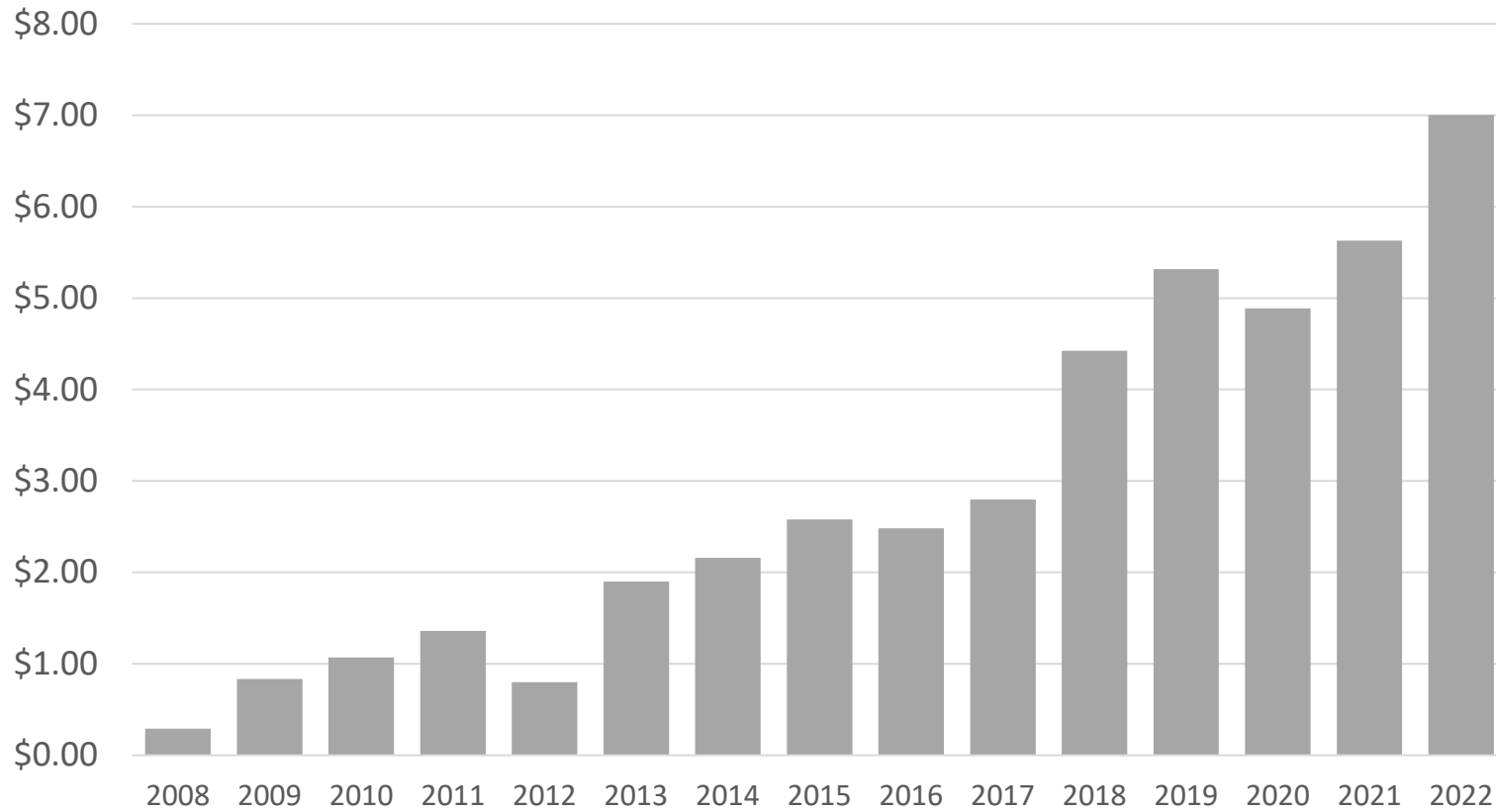
Earnings per Share



GREAT BUSINESS



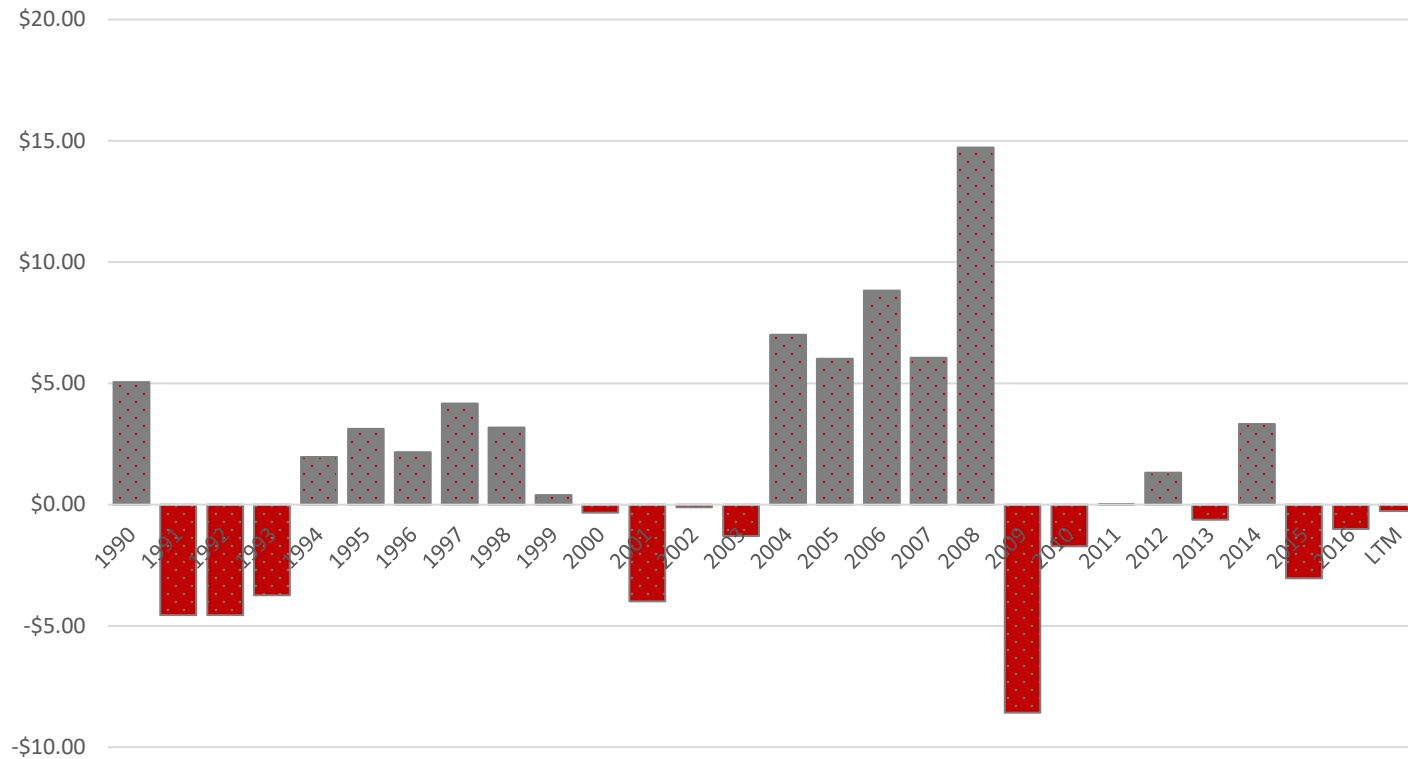
EPS



NOT SO GREAT BUSINESS



Earnings per Share



Why Compounders vs. Cigar Butts?

$$\begin{array}{r} \text{Dividend Return} \\ + \\ \text{Earnings Growth Rate} \quad (\text{A}) \\ + \\ \text{Change in P/E Multiple} \quad (\text{B}) \\ + \\ (\text{A}) \times (\text{B}) \end{array}$$

Total Shareholder Return =

The Math Behind Compounding Intrinsic Value

A business will grow its intrinsic value at a rate that equals the product of two factors:

- (i) incremental ROIC and
- (ii) the reinvestment rate.

Simple example: a business that can reinvest 50% of its earnings back into the business at a 12% return on investment will compound the intrinsic value of the enterprise at 6% annually.

$$50\% \times 12\% = 6\%$$

Compounding



Visa Inc.
(NYSE:V)
Cost (ACB)
\$108.68



Source: CNBC

INVESTMENT CRITERIA

SELECT “GREAT” BUSINESSES

EASY TO UNDERSTAND

ATTRACTIVE UNDERLYING ECONOMICS

DURABLE COMPETITIVE ADVANTAGES

SOLID MANAGEMENT

SHAREHOLDER-FRIENDLY MANAGEMENT

HISTORY OF SOUND CAPITAL ALLOCATION

LONG-TERM TRACK RECORD OF SUCCESS

MARGIN OF SAFETY

WAIT FOR OUR OPPORTUNITY

BUY STOCKS THAT ARE UNDERVALUED



BERKSHIRE HATHAWAY INC.

INVESTMENT STYLE



PATIENCE

BUY STOCKS OPPORTUNISTICALLY

LONG HOLDING PERIODS (COMPOUNDING & REDUCED TRANSACTION FEES)

MINIMIZE RISK

DISCIPLINED COMMITMENT TO PROTECT AGAINST PERMANENT LOSS OF CAPITAL

WE AVOID THE USE OF LEVERAGE AND AREN'T FORCED TO SELL IN TOUGH MARKETS

OUR BEST IDEAS

WE MANAGE A PORTFOLIO OF OUR BEST IDEAS (15-20 STOCKS)

CONVICTION PORTFOLIO

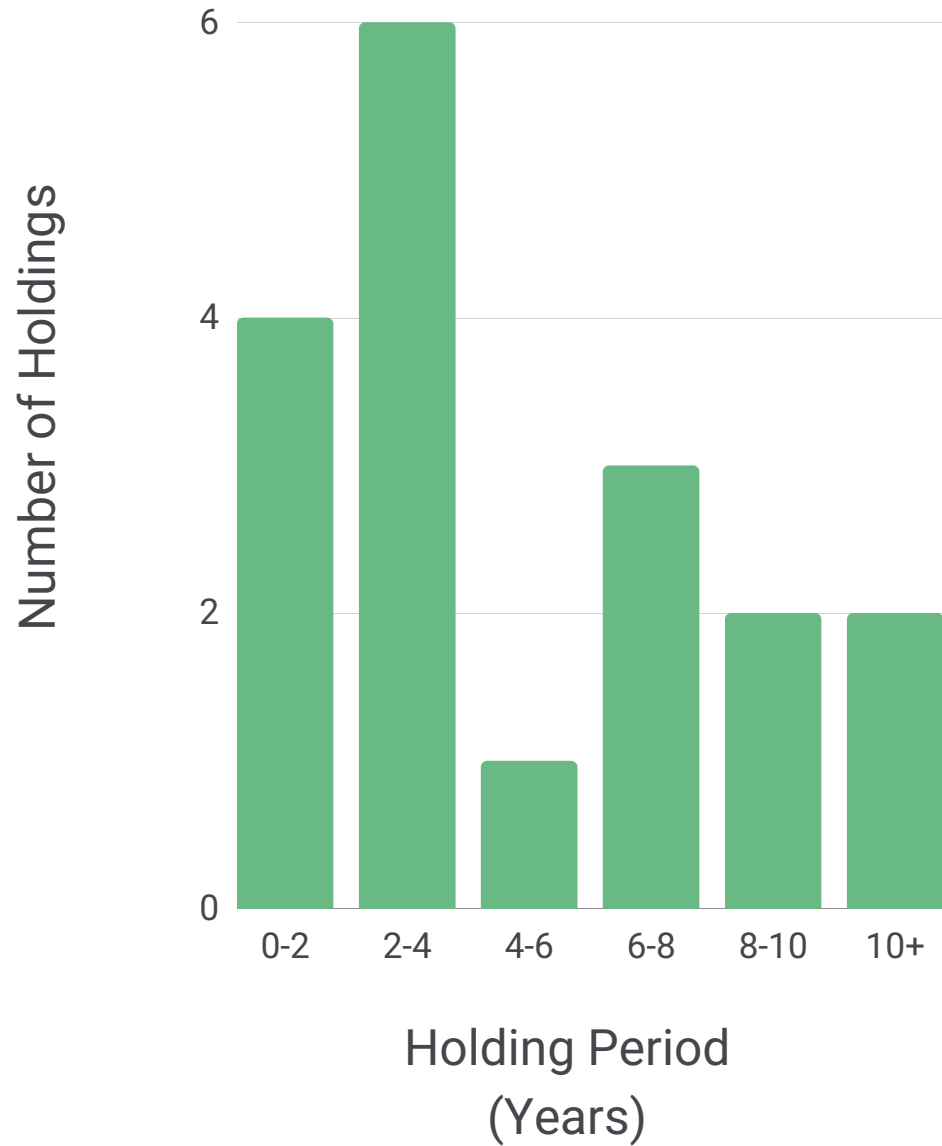


A portfolio of **ONLY** our best ideas

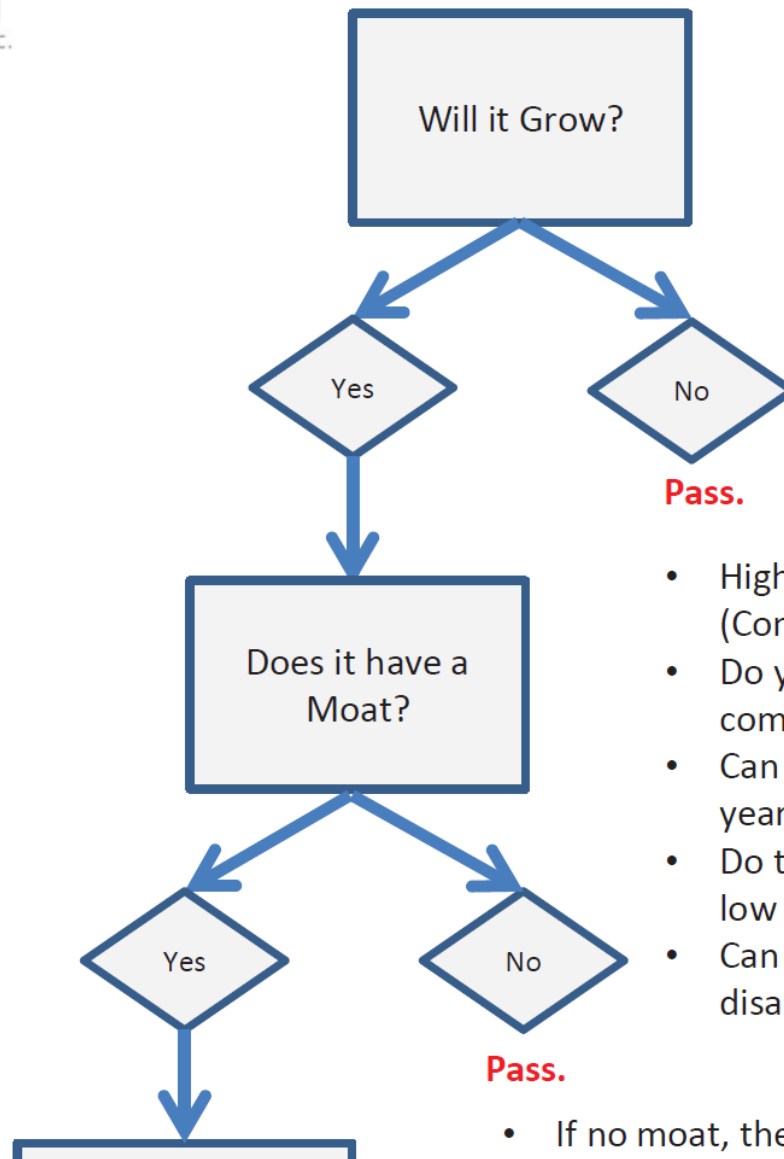
Holding Periods

Two positions held since inception

Average holding period: 4.8 years



The GreensKeeper Algorithm



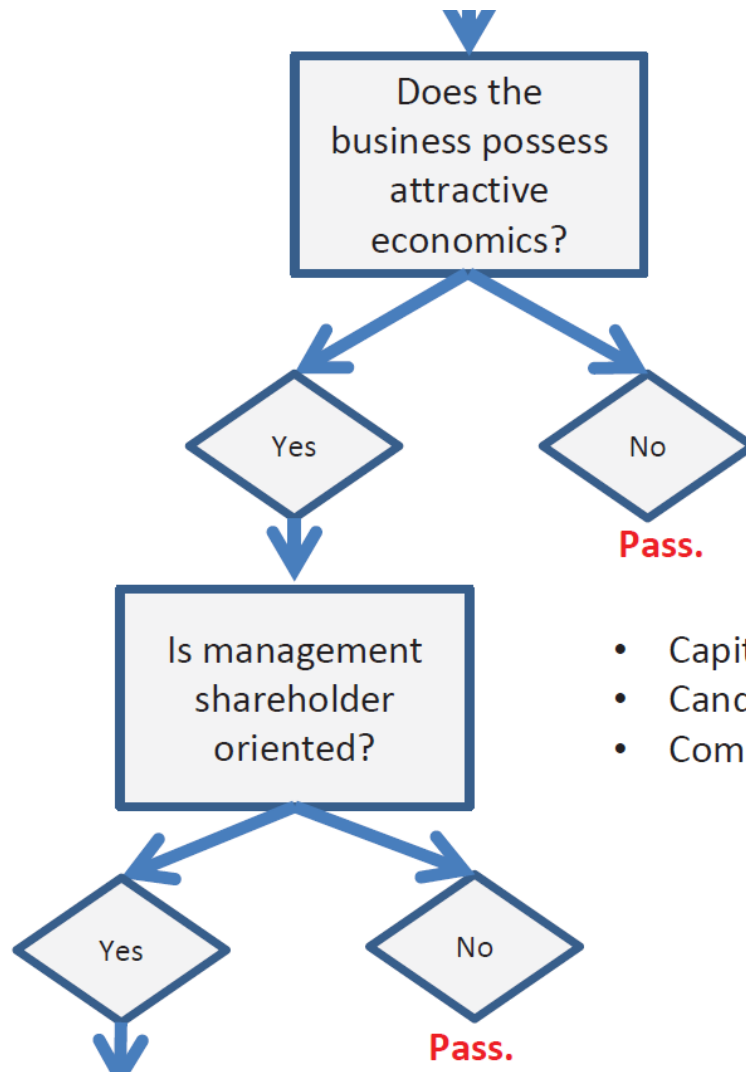
- Don't waste time on "cigar butt" situations. Look for growth: long runways and tailwinds (increasing Intrinsic Value).
- Make time your friend, not your enemy

- High ROIC and stable market share? (Competition Demystified)
- Do you understand the business and its competitive dynamics?
- Can you gauge its competitive position in 5-10 years? Is the business model stable?
- Do they have pricing power or are they the low cost producer?
- Can the business go "way wrong"? Avoid disasters (Buffett's Rule #1).

Pass.

- If no moat, the business cannot be valued.

The GreensKeeper Algorithm

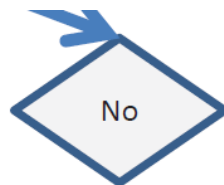
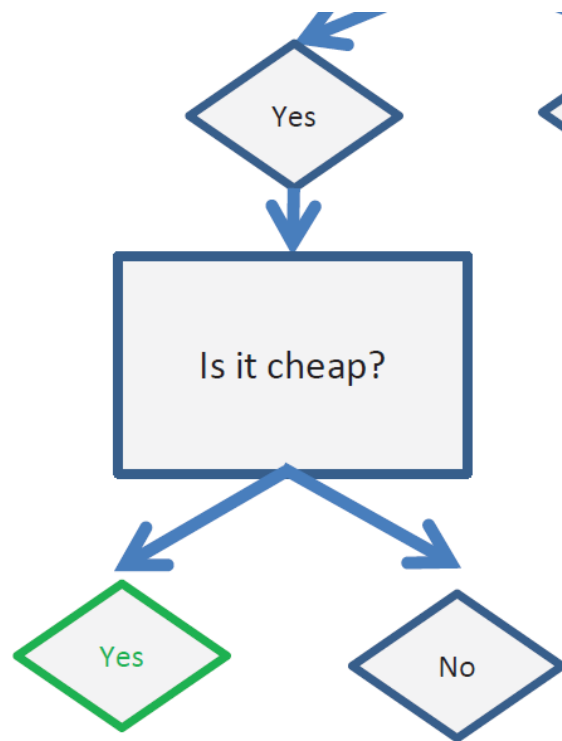


- If no moat, the business cannot be valued.

- High ROIC/ROE
- Is the business capital intensive?
- Does it generate significant free cash flow?
- Does the business use excessive leverage?

- Capital allocation
- Candour and honesty
- Compensation

The GreensKeeper Algorithm




Pass.

- Fat? Look for one-foot hurdles! It should be obvious.
- WB/CM: we aren't looking to be brilliant, we just try to avoid stupidity. Look for layups!
- Why cheap? What is the bear case and why is it wrong?

If passes all tests, buy if cheap enough,
otherwise add to watch list and monitor.

Psychology / Bias / Temperament

50 COGNITIVE BIASES TO BE AWARE OF SO YOU CAN BE THE VERY BEST VERSION OF YOU

Memory	Social	Learning	Belief	Money	Politics
<p>Fundamental Attribution Error</p> <p>We judge others on their personality or fundamental character, but we judge ourselves on the situation.</p>  <p><i>Sally is late to class; she's lazy. You're late to class; it was a bad morning.</i></p>	<p>Self-Serving Bias</p> <p>Our failures are situational, but our successes are our responsibility.</p>  <p><i>You won that award due to hard work rather than help or luck. Meanwhile, you failed a test because you hadn't gotten enough sleep.</i></p>	<p>In-Group Favoritism</p> <p>We favor people who are in our in-group as opposed to an out-group.</p>  <p><i>Francis is in your church, so you like Francis more than Sally.</i></p>	<p>Bandwagon Effect</p> <p>Ideas, fads, and beliefs grow as more people adopt them.</p>  <p><i>Sally believes fidget spinners help her children. Francis does, too.</i></p>	<p>Groupthink</p> <p>Due to a desire for conformity and harmony in the group, we make irrational decisions, often to minimize conflict.</p>  <p><i>Sally wants to go get ice cream. Francis wants to shop for T-shirts. You suggest getting T-shirts with pictures of ice cream on them.</i></p>	
<p>Halo Effect</p> <p>If you see a person as having a positive trait, that positive impression will spill over into their other traits. (This also works for negative traits.)</p> 	<p>Moral Luck</p> <p>Better moral standing happens due to a positive outcome; worse moral standing happens due to a negative outcome.</p> 	<p>False Consensus</p> <p>We believe more people agree with us than is actually the case.</p> 	<p>Curse of Knowledge</p> <p>Once we know something, we assume everyone else knows it, too.</p>  <p><i>Alice is a teacher and</i></p>	<p>Spotlight Effect</p> <p>We overestimate how much people are paying attention to our behavior and appearance.</p>  <p><i>Sally is worried everyone's</i></p>	

Lifelong Learning

**Compounding
Knowledge**

fs.blog

fs

Margin of Safety



Take advantage of Mr. Market

**“MR. MARKET IS THERE TO
SERVE YOU, NOT TO GUIDE YOU”**

-- Benjamin Graham
The Intelligent Investor

How we Define Risk



Using volatility as a measure of risk is nuts. Risk to us is 1) the risk of permanent loss of capital, or 2) the risk of inadequate return.

— *Charlie Munger* —

AZ QUOTES

VALUATION AND RISK

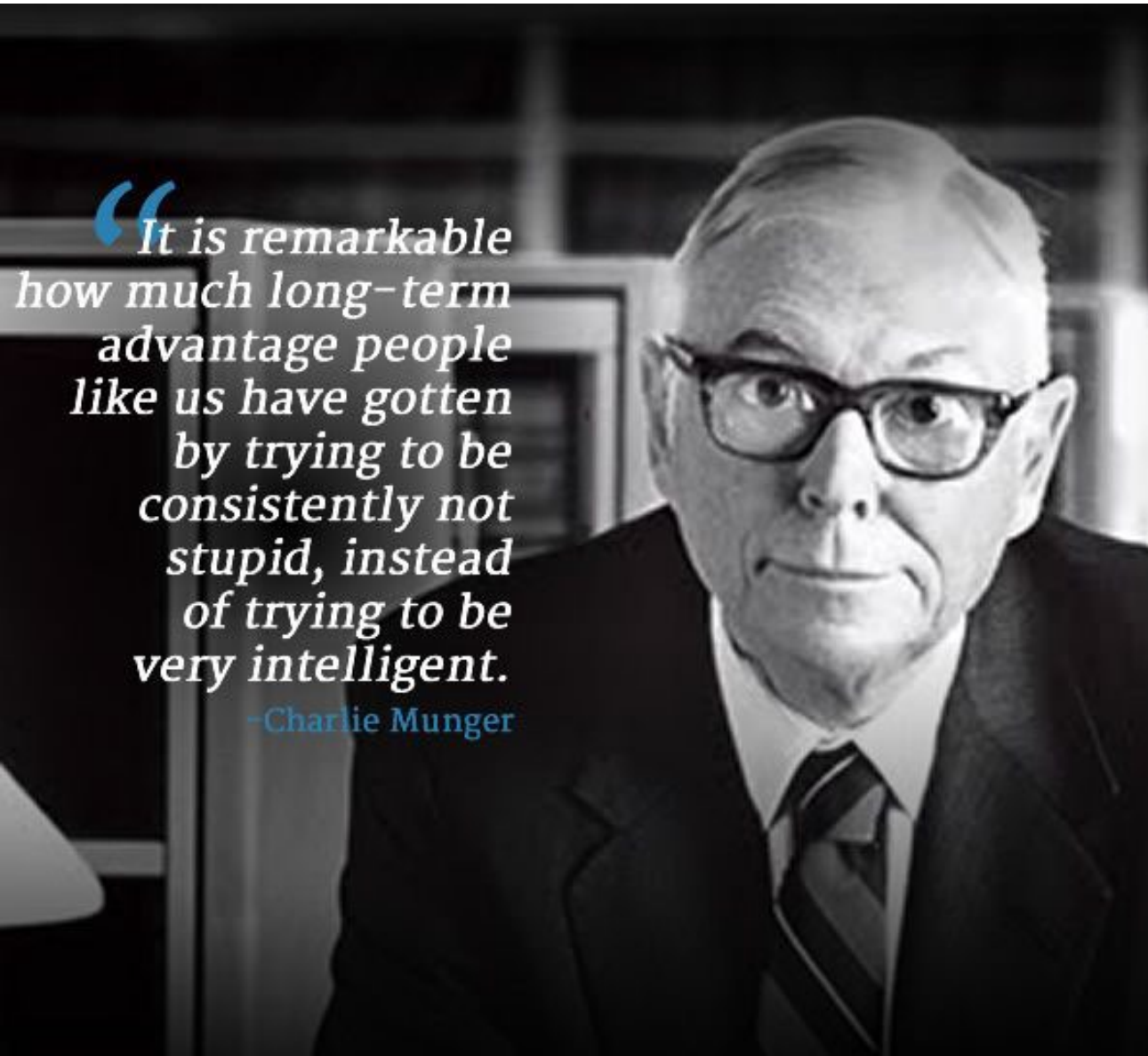
PRICE AND RISK ARE INTERTWINED

AS A STOCK PRICE INCREASES, SO DOES THE RISKINESS OF THE INVESTMENT

EVEN GREAT BUSINESSES CAN BE RISKY IF YOU OVERPAY

“AT BOTTOM, THE RISKIEST THING IS OVERPAYING FOR AN ASSET (REGARDLESS OF ITS QUALITY), AND THE BEST WAY TO REDUCE RISK IS TO PAY A PRICE THAT IS IRRATIONALLY LOW.”

-- Howard Marks, Oaktree Capital Management



“It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.

-Charlie Munger

AVOID
STUPIDITY

REALLY?



CryptoKitties

Collectible.
Breedable.
Adorable.

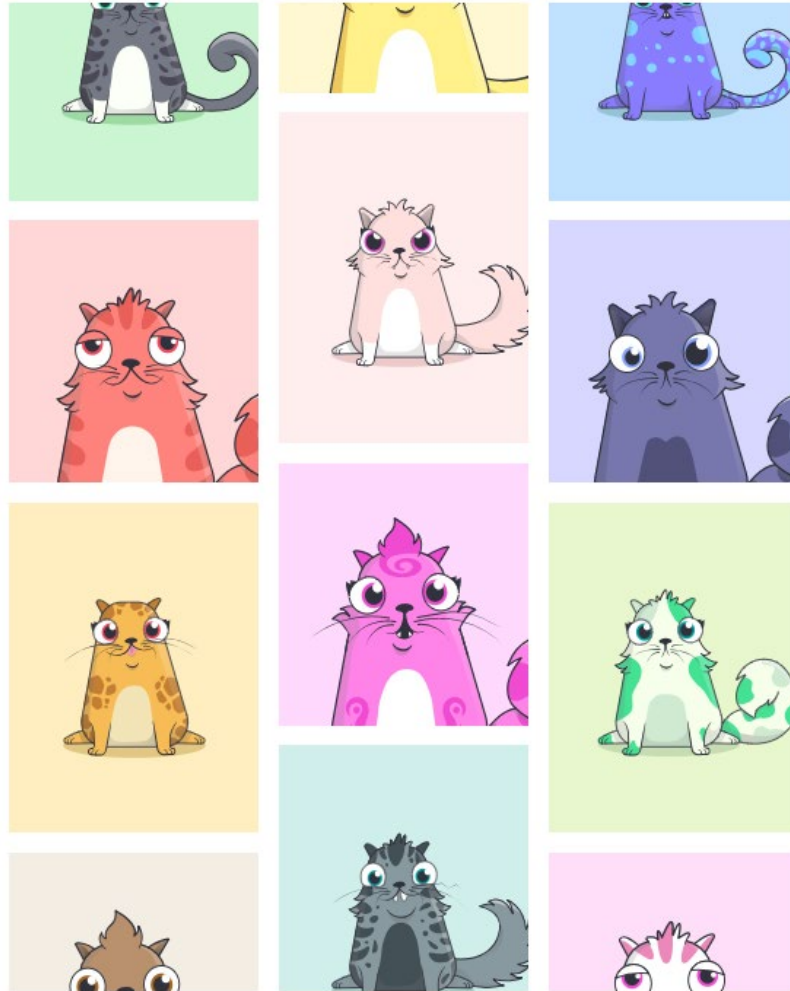
Collect and breed digital cats.

Start meow

- >\$15.5MM sold as of Dec. 2017
- Some sold for > \$100K

Source: Globe & Mail

Start Meow Marketplace



Mr. Market

Largest S&P500 Constituents (May 27, 2023)

Ticker	SYM_DESC	CAP	52HI	52LO	% Change	
1 AAPL	Apple Inc.	2759.29	176.39	124.17	42%	
2 MSFT	Microsoft Corporation	2475.20	333.40	213.43	56%	
3 GOOGL	Alphabet Inc.	1586.99	126.43	83.34	52%	
4 AMZN	Amazon.com, Inc.	1232.37	146.57	81.43	80%	
5 NVDA	NVIDIA Corporation	963.18	394.80	108.13	265%	
6 V	Visa Inc.	461.08	235.57	174.60	35%	
7 BRK.B	Berkshire Hathaway Inc.	700.59	333.94	259.85	29%	
8 META	Meta Platforms, Inc.	671.54	262.31	88.09	198%	
9 TSLA	Tesla, Inc.	612.25	314.67	101.81	209%	
10 UNH	UnitedHealth Group Incorporated	448.31	558.10	449.70	24%	
					Average	99%
					Median	54%

What periods lead me to greater or lesser investments?

I'm often asked: "Is now a good time to invest?"

Casino owners don't try to determine the ideal opening time. They simply keep the doors open as long as possible. Don't try and time the market. Get and stay invested!

The screenshot shows a Twitter interface with a central tweet and sidebars for navigation and trending topics.

Navigation Sidebar (Left):

- Home
- Explore
- Notifications
- Messages
- Lists
- Bookmarks
- Top Articles
- Verified Orgs
- Profile

Central Tweet:

← Tweet

 **Michael McCloskey** ✓
@GreensKeeperAM

I'm often asked: "Is now a good time to invest?" Casino owners don't try to determine the ideal opening time. They simply keep the doors open as long as possible. Don't try and time the market. Get and stay invested! [#markettiming](#)

Think in Probabilities

Ever wonder why so many investment professionals advise their clients to stay invested? Because it flows naturally from the following market facts.

Since launching the Value Fund in 2011, the fund and the market have both been up about 69% of the time (measured monthly). Longer-term studies of the S&P500 peg that number ever higher.¹⁴ Over the past century, the US stock market has provided superior returns to all other major asset classes.

Fortunes have been made by casinos via games of chance that give the house a slight edge of just a few percent over their customers. Over long periods of time, the house is *guaranteed* to come out ahead despite some fluctuations in their daily profits and losses.

The stock market is a game that provides its players with even better odds. By purchasing above-average companies when they are undervalued, we try and stack the odds even more in our favour. When investors are scared, stock prices tend to be attractive and stocks less risky. In other words, it is usually a good time to put money to work. No different than a card counter at a blackjack table raising her bets when the count is in her favour.

Equities are a winning game. If you have a sufficient time horizon and can handle the volatility, the secret is to just keep playing. Investors who think that they can consistently predict when to exit and then reenter the equity markets are delusional. Market timers deliberately forego playing this wonderful game. Stay invested.

3:43 PM · Nov 24, 2023

Relevant people

 **Michael McCloskey** ✓
@GreensKeeperAM
Founder: GreensKeeper Asset Management. Value investor. Former Investment Banker, Lawyer. Math geek, polymath and bibliophile. Tweets are not investment advice.

What's happening

MLB · Last night
Red Sox at Diamondbacks 

Only on Twitter · Trending
#SaturdayMorning
5,998 Tweets

Politics · Trending
Trump Bucks
2,279 Tweets



Greenskeeper
ASSET MANAGEMENT INC.

Case Study #1 – Vertex Pharmaceuticals (VRTX)

Vertex Pharmaceuticals Inc (NASDAQ: VRTX)

2021: trading at a discount to projected cash flow stream on Cystic Fibrosis (CF) treatment alone.

Patent protection until 2037.

97% market share.

Why so cheap?: Abbvie (ABBV) hinted that its Phase 2 CF candidate might be better



Vertex Pharmaceuticals Inc (NASDAQ: VRTX)

Trikafta/Kaftrio Sales: BI Scenario (\$ Millions)					
	2021E	2022E	2023E	2024E	2025E
U.S.	\$ 3,978	\$ 4,134	\$ 4,478	\$ 4,622	\$ 4,678
EU	\$ 970	\$ 1,498	\$ 1,993	\$ 2,385	\$ 2,829
ROW	\$ 50	\$ 75	\$ 125	\$ 175	\$ 200
Total WW revenue	\$4,997	\$5,707	\$6,596	\$7,182	\$7,706

Source: Bloomberg Intelligence Research, Aug. 2021.

2023E Revenue: \$9.6 billion. 89% Gross Margin.

Pipeline looks interesting. But we didn't pay anything for it.

Vertex Pharmaceuticals Inc (NASDAQ: VRTX)



**Cost (ACB)
\$194.20**

**Unrealized
gain: 70%**



Source: CNBC



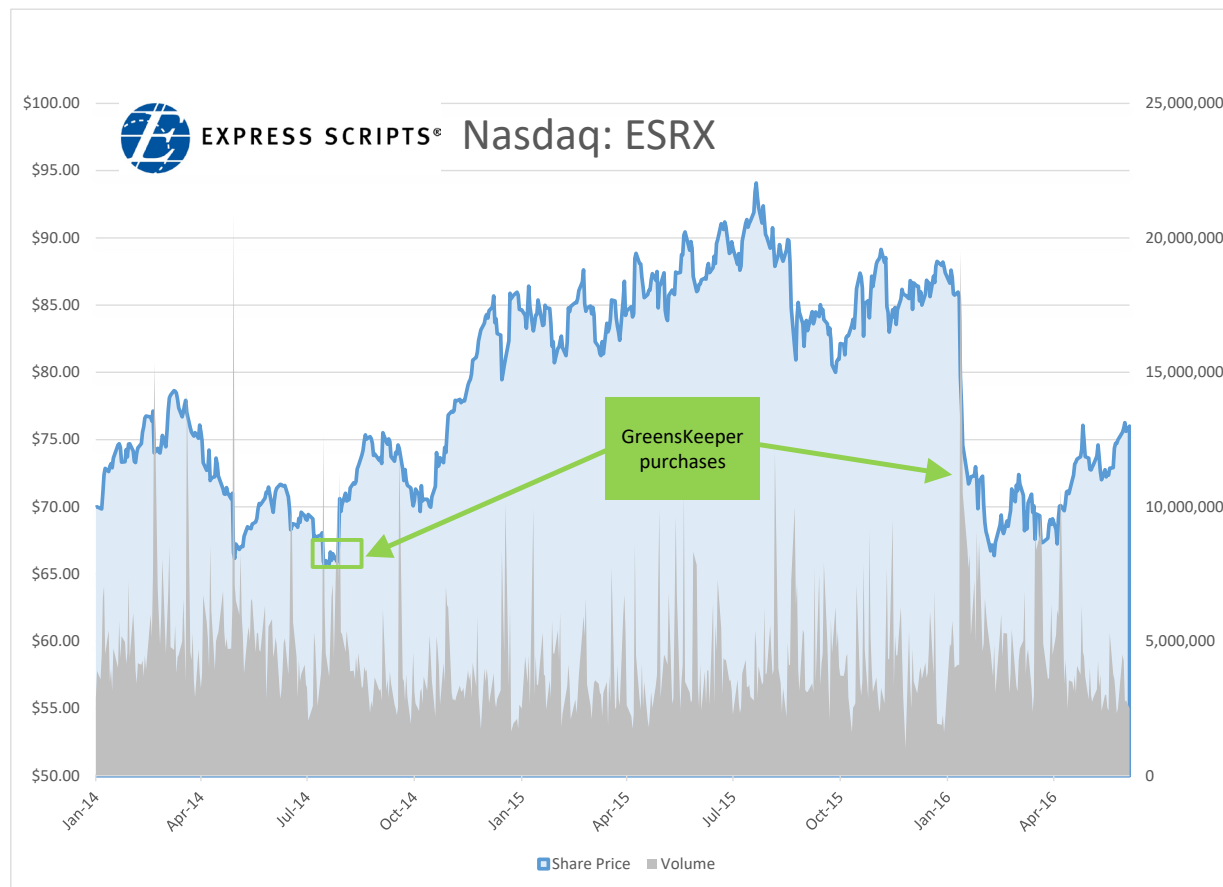
Case Study #2 – Express Scripts

EXPRESS SCRIPTS (NASDAQ: ESRX)

LARGEST PHARMACY BENEFITS MANAGER (PBM) IN NORTH AMERICA

INDUSTRY OLIGOPOLY AS SCALE NEEDED TO SUCCEED

HUGE FREE CASH FLOW (FCF) GENERATION



EXPRESS SCRIPTS (NASDAQ: ESRX)

**OBSCURE INDUSTRY BUT BIG BUSINESS
(\$48 BILLION MARKET CAP)**



MOAT SOURCE(S): SCALE, SWITCHING COSTS

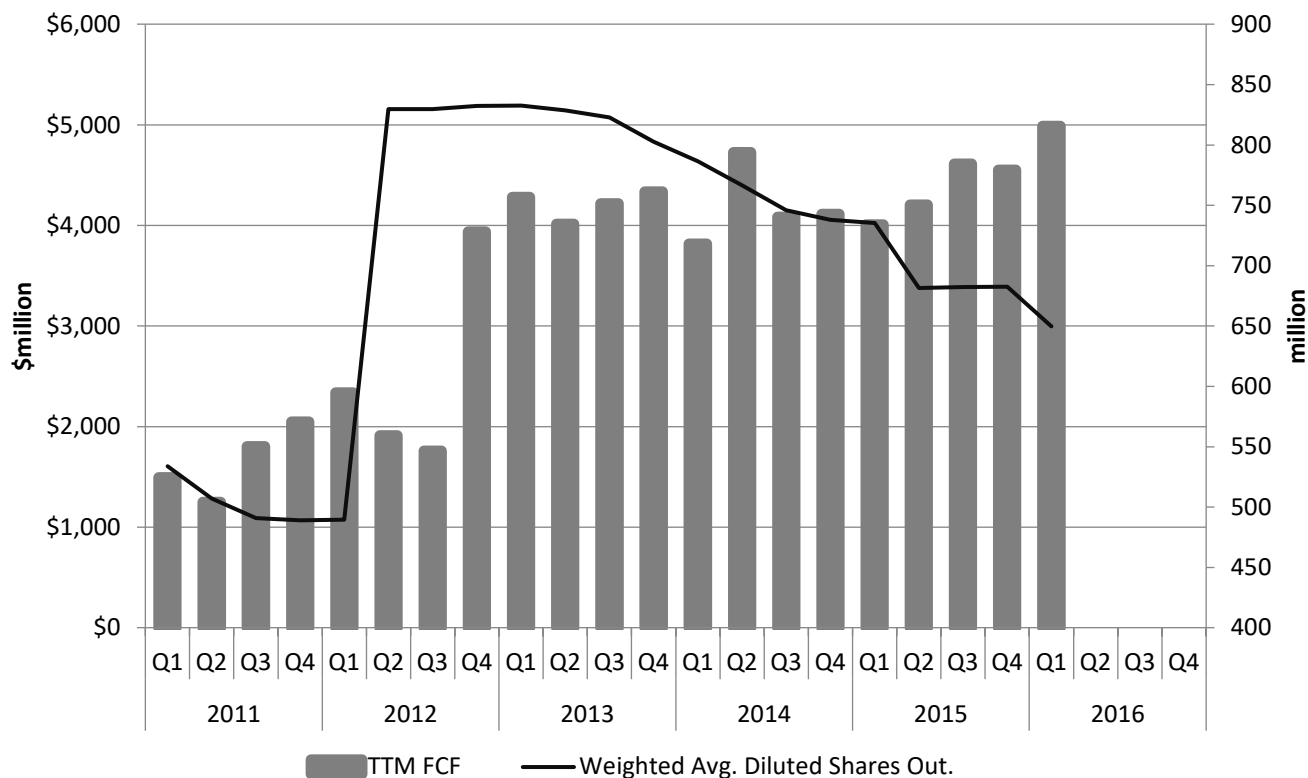
MAKE A MARGIN OF ABOUT \$5.50 PER SCRIPT

PROCESS 1.4 BILLION SCRIPTS PER YEAR (3.8 MILLION PER DAY)

CLIENT CONTRACT RENEWAL RATES > 96% (A GREAT BUSINESS!)

SHAREHOLDER FRIENDLY MANAGEMENT

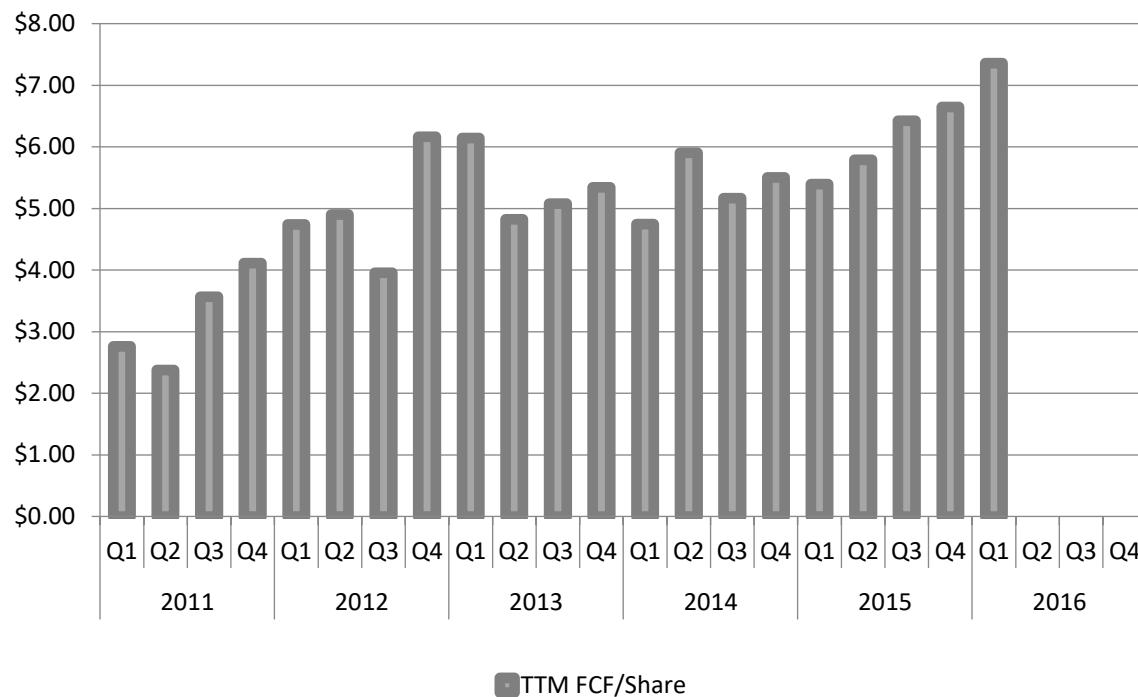
FREE CASH FLOW INCREASING, SHARE COUNT
DECREASING



INCREASING CASH EARNINGS

... RESULTED IN INCREASING CASH EARNINGS PER SHARE

OUR COST BASE WAS **US\$69.47** PER SHARE (OR **9.4X** TTM FCF)



WHY SO CHEAP?

INTEGRATION ISSUES RELATED TO LARGE ACQUISITION (MEDCO)

**RECENT CONTRACT DISPUTE WITH LARGEST CLIENT – ANTHEM
(~14% OF REVENUE)**

**RHETORIC ABOUT HIGH US DRUG PRICES DUE TO US ELECTION
CYCLE**

COMPLEXITY:

ACCOUNTING ISN'T STRAIGHTFORWARD

**NON-CASH AMORTIZATION LOWERS STATED EARNINGS-PER-
SHARE**

DRUG PRICING IS VERY OPAQUE

INVESTMENT SUMMARY (AS OF JUNE 2016)

MANAGEMENT GUIDES TO 10%-20% ANNUAL EPS GROWTH OVER THE LONG TERM

VERY GOOD HISTORICAL TRACK RECORD OF DELIVERING RESULTS

WE PAID LESS THAN 10X CASH FLOW FOR A VERY HIGH QUALITY BUSINESS.

TO DATE, OUR INVESTMENT RETURNS HAVE BEEN MODEST (STAY TUNED)

AVERAGE COST (ACB)	\$69.47
DIVIDENDS RECEIVED TO DATE	\$0.00
CURRENT SHARE PRICE	\$76.86
RETURN TO DATE	10.6%
RETURN (ANNUALIZED)	5.8%

Surprise!

BARRON'S

HOME REAL-TIME MAGAZINE ADVISOR CENTER DATA PENTA NEXT

VIEW FROM THE BUYSIDE

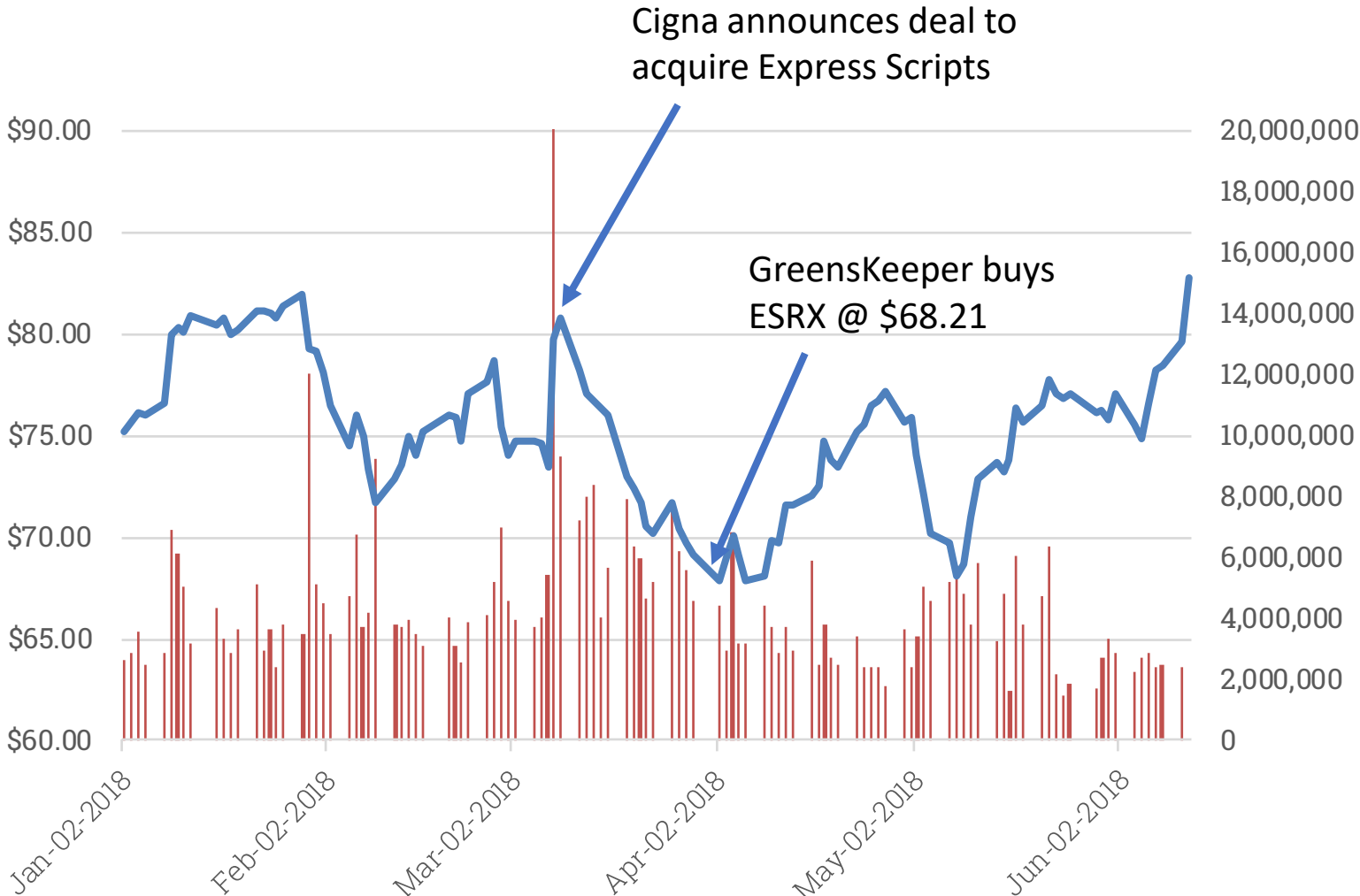
Buyout Target Express Scripts Has 30%-Plus Upside

By Michael McCloskey, GreensKeeper Asset Management • April 3, 2018 3:06 p.m. ET

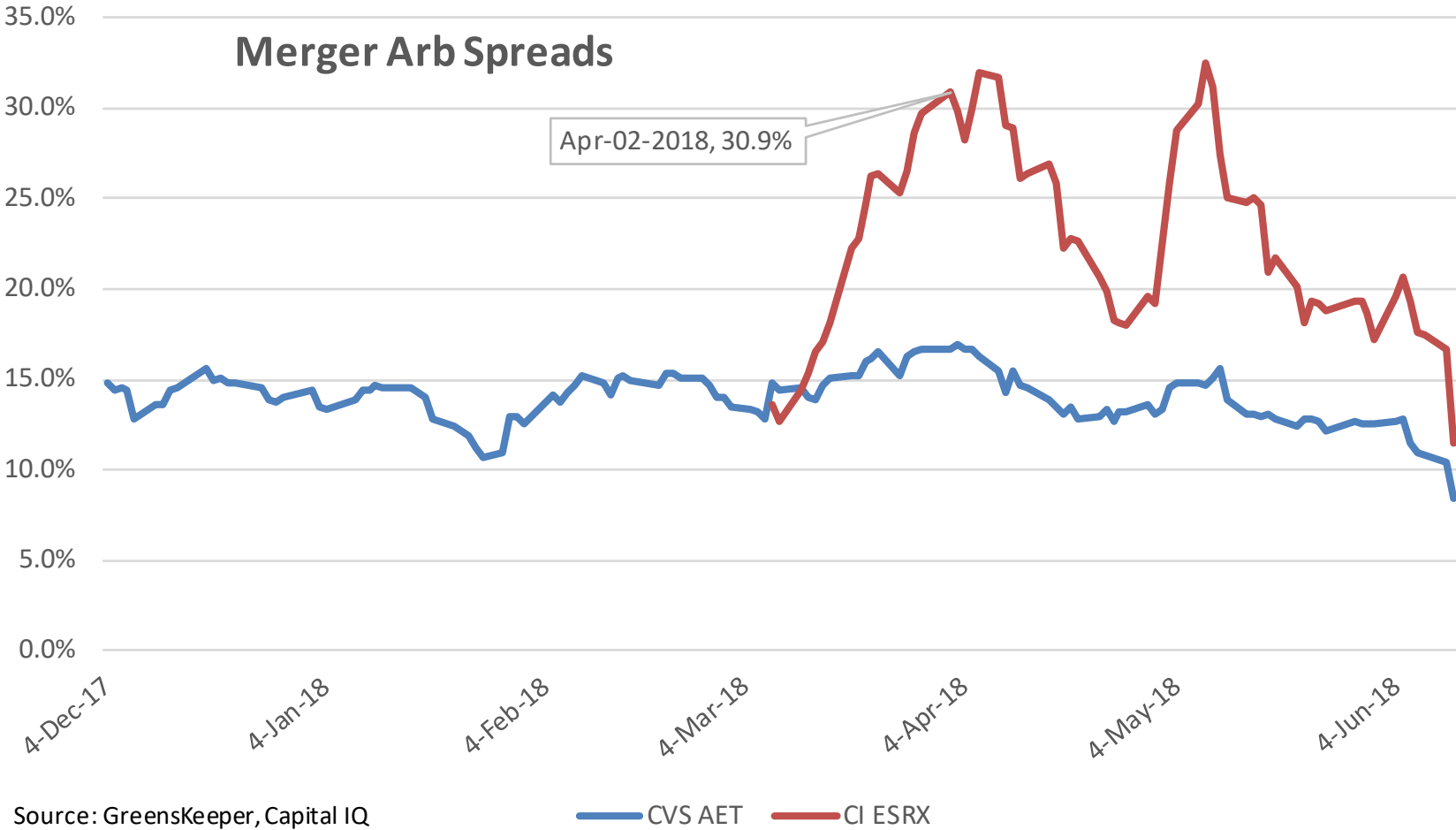


PHOTO: BLOOMBERG NEWS

ESRX CASE STUDY



ESRX CASE STUDY



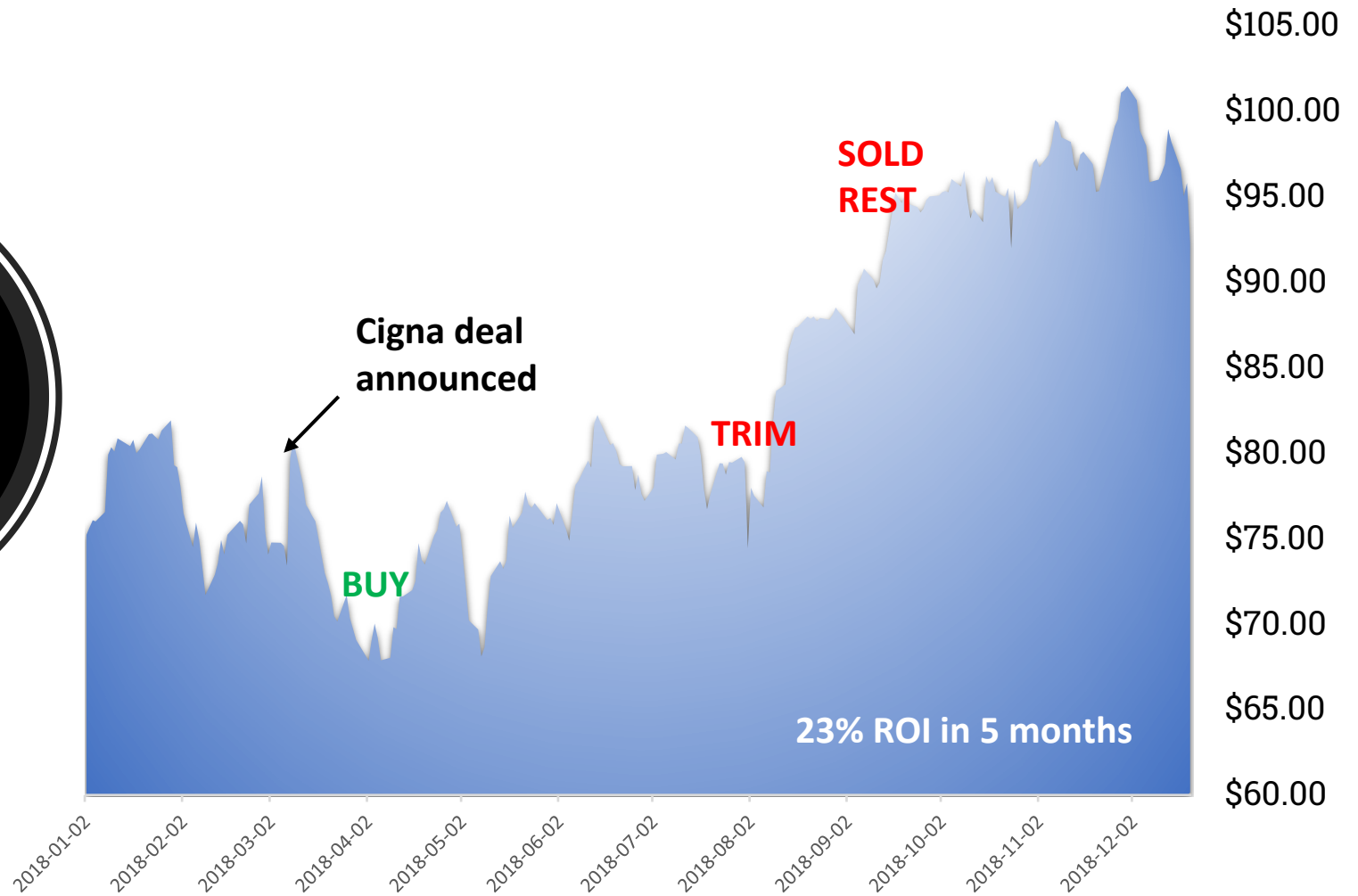
Final Outcome



 EXPRESS SCRIPTS®

Express Scripts
(Nasdaq:ESRX)

Cost (ACB) \$68.23
Sale Price \$83.96



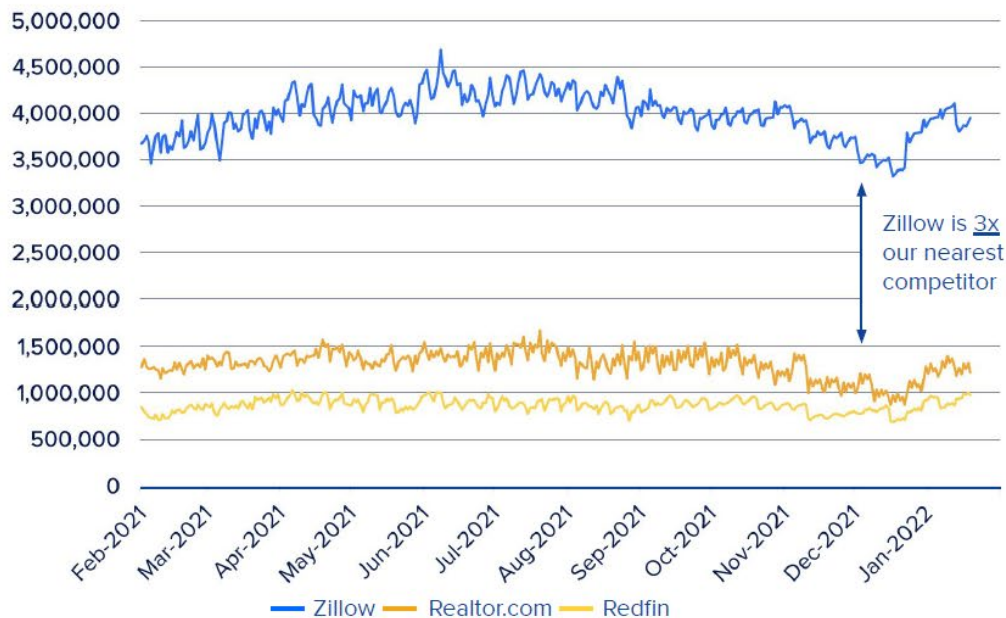


Case Study #3 – Zillow Group (ZG)

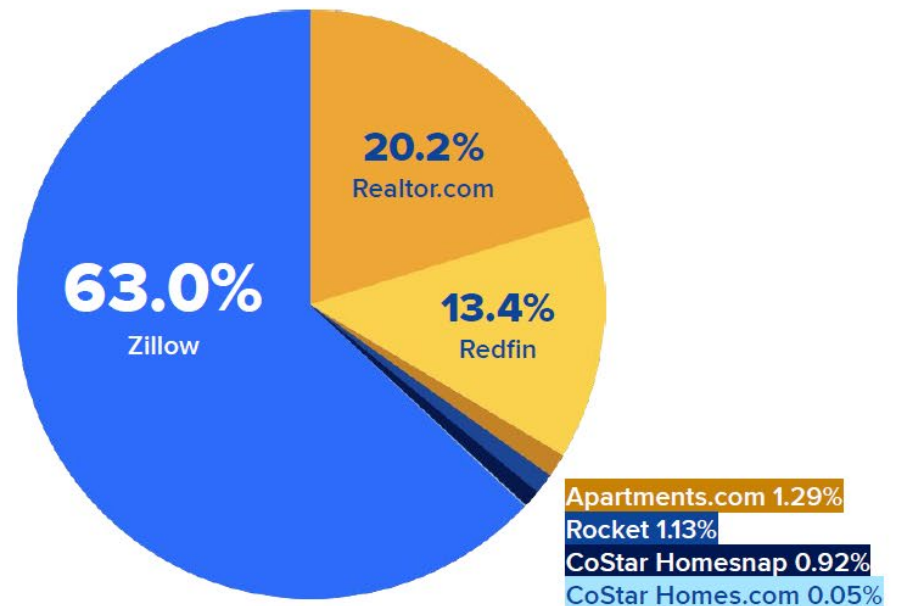
ONE THAT I PASSED ON: ZILLOW (NASDAQ: ZG)

#1 U.S. Online Residential Real Estate App by Wide Margin

Daily Active App Users Among Real Estate Marketplaces



Daily Active App Users



Source: App Annie data as of February 2022.

TOO MANY RED FLAGS

Co-Founder Richard Barton:

“Our company was built on big swings, and we're going to continue taking them.”

“I'm a big believer in BHAGs.”

“I like having a reasonable amount of cash on the balance sheet at hand ... it creates optionality for us.”

TOO MANY RED FLAGS

Business model in flux

Dual-class share structure

Focus on adjusted EBITDA and ignore “bad stuff”

Dilution due to large option grants

QUESTIONS?



LEGAL DISCLAIMERS

GreensKeeper Asset Management Inc. is the investment manager to the GreensKeeper Value Fund (the "Value Fund"). Important information about the Value Fund, including its investment objective and strategies, applicable management fees, performance fees, and expenses is contained in its offering memorandum. The offering of units of the Value Fund is made pursuant to offering memorandum and only to those investors in jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Please read the offering memorandum carefully before investing. Commissions, trailing commissions, management fees, performance fees, other charges and expenses all may be associated with investing in the Value Fund. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication does not constitute an offer to sell or solicitation to purchase securities of the Value Fund. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Value Fund may be lawfully sold in their jurisdiction.

All returns are as at April 30, 2023, and for Class A units. GreensKeeper Asset Management Inc. (GKAM) assumed the investment management responsibilities of the Value Fund on January 17, 2014. Prior to that date, the Value Fund was managed by Lightwater Partners Ltd. while Mr. McCloskey was employed by that firm. This document is intended for informational purposes and should not be construed as an offering or the solicitation of an offer to purchase an interest in the GreensKeeper Value Fund or any other GreensKeeper Funds (collectively, the "Funds"). Any such offer or solicitation will be made to qualified investors only by means of an offering memorandum and only in those jurisdictions where permitted by law. GKAM is registered in Ontario, Canada under the categories of Portfolio Manager, Investment Fund Manager, and Exempt Market Dealer. An investment in the GreensKeeper Value Fund is speculative and involves a high degree of risk. Opportunities for withdrawal, redemption and transferability of interests are restricted, so investors may not have access to capital when it is needed. There is no secondary market for the interests and none is expected to develop. Investments should be evaluated relative to an individual's investment objectives. The information contained in this document is not, and should not be construed as, legal, accounting, investment or tax advice. You should not act or rely on the information contained in this document without seeking the advice of an appropriate professional advisor. Please read the Fund offering memorandum before investing.