Focused
COMPOUNDING

The Focused Compounding Fund

"We spend 99% of our time FOCUSED on
the 1% of stocks every other fund ignores."

Current Market: 8/2/2022

Focused COMPOUNDING

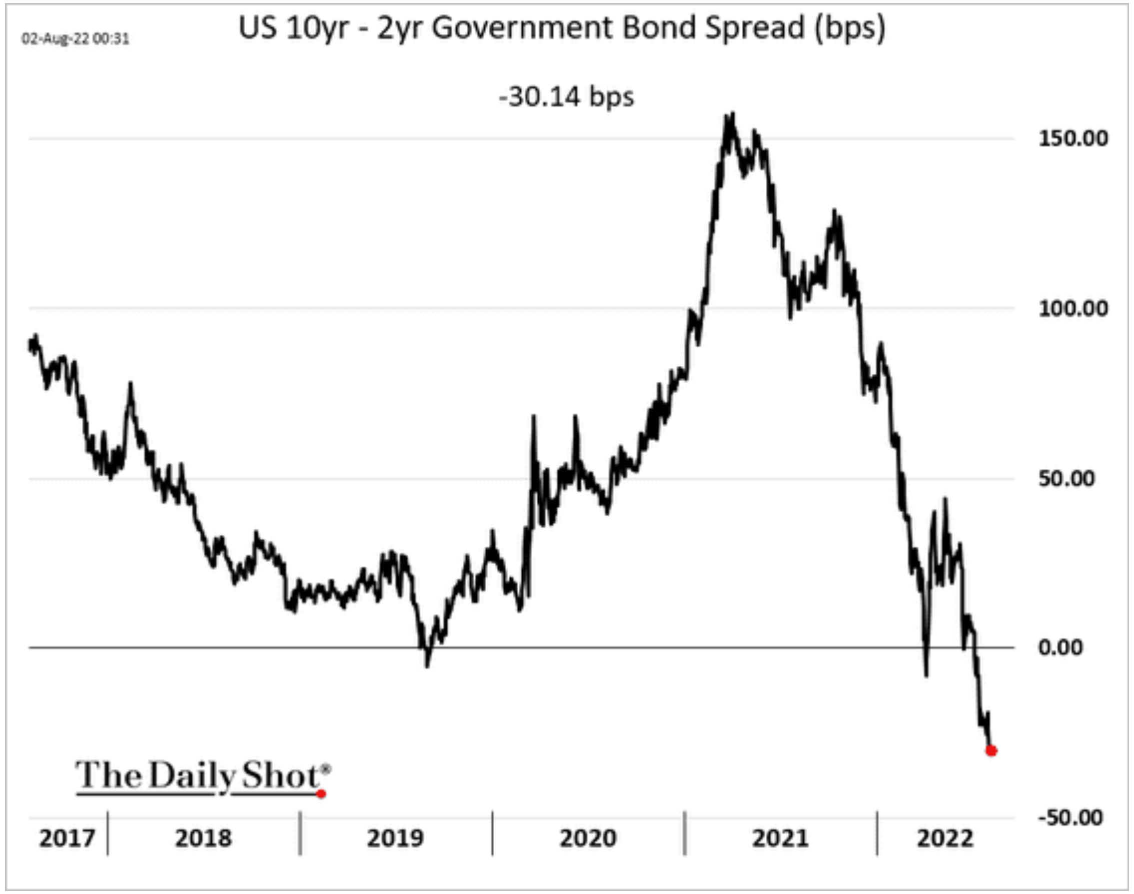
S&P 500: -14% YTD

10-Yr: 2.661%

Crude Oil: $94.51

Natural Gas: $7.805

Current Market: 8/2/2022



Current Market: 8/2/2022

FOOD & BEVERAGE

PepsiCo takes $550 million stake in energy drink maker Celsius

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@THXAMELIAN

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PepsiCo announced Monday a $550 million investment in energy drink maker Celsius Holdings as part of a long-term distribution deal with the smaller company

Pepsi’s investment in Celsius translates to a minority stake of roughly 8.5% in the company. The food and beverage giant will also nominate a director to serve on Celsius’ board

Questions: 8/2/2022

Valuation outliers topic within an industry. Retail is having a tough slog with inflation and an expectation for some depth of recession. Understandable they've all gotten knocked around.

But OLLI Ollie's has a valuation I just don't understand. Do either of the two of you have thoughts? Granted no debt, but not a ton of cash on the balance sheet, and trading at around 22X '24 earnings? Good god. Who runs this, Elon's brother? How do they get such a frothy valuation? Earnings growth has been steady, but entering a potential economic rough patch, and they still have these kinds of multiples? Is the idea this overstock seller might see margin and revenue expansion in a recession? Seems rich, but I'm no expert. What explains such disparity in valuations across companies in an industry? Is this management really worth a growth multiple in what is typically a tough industry? Has the overstock industry consolidated like the railroads and competition is agreeing to not kill each other?

Loyal listener. You guys are really terrific, generous with your knowledge and teaching.

Questions: 8/2/2022

I was watching your old videos, and on this one: What's my upside? How to Break Down Where Your Return Can Come From - YouTube on minute 5:17, what would you do differently if the company had to reinvest into the business to grow?
I'm trying to put in my head how you value the business by all the youtube videos, but I'm not 100% figuring it out.

Do you recommend me any other content about this way of valuing a company? (I'm reading avg 3-5 10k's a week)

Questions: 8/2/2022

I've been reading an article that Geoff wrote and there is something that I'm not yet understanding well. He wrote: "In reality, if OTCMarkets is priced at a P/E of 25, that's really like having a free cash flow yield of 5% (because Price/Free Cash Flow is likely 20 instead of 25). That means if my hurdle rate is 10% total, I really only need OTCM to grow by 5% a year while I own it. 10% – 5% Free Cash Flow Yield = 5% Required Growth. So, starting at a P/E of 25 – OTCMarkets will probably beat the market over time if it grows faster than 5% a year."
Based on this my question is: when he says that it only needs to grow by 5% a year while you own it, that's to achieve a ~10% CAGR during the period? Because if the FCF yield grows by 5% every year for 10 years I think that the CAGR wouldn't be of 10% a year. Or is it more of a yield to maturity thing assuming that we reinvest dividends and so on and in that case the CAGR of 10% would be achieved? If this is the case, wouldn't a significant increase in the price of the stock make us unable to reinvest at yield that would let one achieve that CAGR?

Thanks in advance

Questions: 8/2/2022

Modern Value Investor
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Replying to @FocusedCompound

Idea for new pod: how do you calculate no-growth free cash flow? Specifically in these two cases:
1) Company growth requiring working capital. Examples can be CRMT and Stella Jones. Do you assume no growth in working capital for steady state?
2) Company growth requiring capex.

9:47 AM · Jul 14, 2022 · Twitter for Android

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Tip

Tip

Questions : 8/2/2022

*"**I can't give you a formulaic approach, because I don't use one**. And **I just mix all the factors** and if the gap between value and price is not attractive, I go on to something else. And sometimes it's just quantitative. For instance, when **Costco** was selling for 12 or 13 times earnings, I thought that was a ridiculously low value **just because the competitive strength of the business was so great and it was so likely to keep doing better and better**. But I can't reduce that to a formula for you. **I liked the cheap real estate, I liked the competitive position, I liked the personnel system—I liked everything about it.** And I thought even though its three times book or whatever it was then, that it's worth more. **But that's not a formula**. If you want a formula, you should go back to graduate school. They'll give you lots of formulas that won't work."* **Charlie Munger**

Bargaining Power: 8/2/2022

What are the factors we should be thinking about when assessing the bargaining power of a given business relative to its customers and suppliers?

Bargaining Power: 8/2/2022

We've talked about "market power" a lot on this podcast

Market Power = the ability of a company to make demands of its customers or suppliers without fearing that such demands will end their relationship

But…..why would a supplier or customer agree to demands without considering ending the relationship?

Dependency

Bargaining Power: 8/2/2022

Asking whether a supplier gets a large portion of its sales from a single customer (the % of sales, if more than 10%, is included in the 10-K) is a good first check

A second question to ask is whether this percentage is bigger than the supplier's competitor's sales to the same company

Example: if Hanes gets 20% of its total sales from Wal-Mart, does Fruit of the Loom get 10%, 20%, or 30% of its sales from Wal-Mart?

If the answer is that they get the same amount of sales, this lowers the concern of insufficient bargaining power. If the answer is that the supplier you are looking at gets more of its sales from a single customer than competitors usually do, that's a possible red flag.

Bargaining Power: 8/2/2022

The next step is to look at the flipside, how much of its purchases within a category does a buyer allocate to this supplier

This is usually very easy to check in retail. One Wal-Mart is pretty much like any other Wal-Mart. So, if you want to know how much of its underwear needs Wal-Mart buys from Hanes, Fruit of the Loom, etc. you just go to a Wal-Mart and check it out

If a battery maker says they get 20% of sales from Wal-Mart, but you see 50% of shelf-space for batteries dedicated to this company's brand – then is Wal-Mart more dependent on the supplier or is the supplier more dependent on Wal-Mart?

Does the US Navy depend on BWXT, or does BWXT depend on the US Navy?

Bargaining Power: 8/2/2022

Bargaining power for a supplier is often good when:

- Customer buys all or most of its needs in a category from a single supplier
- Customer can’t vet possible alternative suppliers ahead of time without causing problems
- There is a large gap between the “price” the supplier charges and the “cost” as the customer calculates it
- The buyer can serve as a middleman that puts the supplier and customer on the same side versus the end consumer