

Update on Veritiv

Update 8 November

In my 2017 Letter to Partners I informed you that I bought stock in Veritiv, a Seth Klarman holding, at \$42. The stock went all the way up to \$62 and all the way down to \$28. And I informed you about the \$30 hedge I had in place, up until 19 January 2018. After I published my 2017 Letter to Partners, I bought more stock in Veritiv at \$28.

Yesterday, 7 November 2017, as a result of a disappointing Q3 2017 Financial Update, the stock went down 20% and today even further to \$20.40. The stock price has been on a roller coaster and I believe the returns will favor those who are able to avoid emotions and make allocations based on rational and logical decision making.

There is always a risk of high volatility in these kind of high uncertainty stocks. That's exactly why I hedge my positions to limit the downside risks. Today I exercised the put options at \$30 and invested the money to buy more stock at \$22.40.

If you sell at \$30, you can buy back approximately 30% more stocks at \$22.40. As a result the Veritiv investment will be 15% more profitable beyond the break-even point, which is at \$35.

The long-term investment thesis on Veritiv remains strong and intact. In Q3'17 CEO Mary Laschinger bought 3300 additional stocks, Seth Klarman's Baupost Group increased their position in Vertiv and now owns 19.45% or 3,053,724 shares of the company and also Jean-Marie Eveillard initiated a position in Veritiv.

And again, I am more than ready to be proven wrong. My new Veritiv position is once again "hedged".

Update 14 March 2018

After the 2017 annual results presentation on 1 March 2018, the stock bounced back to \$38. The break-even point of the total investment in Veritiv is, as stated earlier @ \$35 and the investment will be 15% more profitable as a result of the \$30 PUT exercise and buy back @ \$22.40.

Here are the most remarkable statements from the 1 March 2018 presentation (as far as I am concerned).

- We have now captured 90% of the high end of our expected synergies of \$225 million established in 2014. The initial synergy capture is effectively complete and we consider it to be a success. Our operating system conversion and warehouse consolidations will be substantially complete by the end of 2018. With the integration nearing completion during the second half of 2018, we plan to transition to the optimization element of our strategy.
- Our 2018 full year guidance expectations are as follows: adjusted EBITDA of \$180 - \$190 million and free cash flow of at least \$30 million.

This is a company getting ready for optimization and long-term growth. I just love free cash flow and I am more than happy to read that Veritiv is ready to generate free cash flow of at least \$30m in 2018. The leadership team showed before that they have the ability and courage to execute and I do believe they will be able meet their 2018 free cash flow target.

Here is the chart of the roller coaster the stock went through, from the moment I bought the stock until now. Obviously I do not know what the stock markets will do in 2018, nor what the Veritiv stock will do in 2018. Nobody does. But for now I am happy to report that the stock passed the Veritiv investment break-even point of \$35.



The long-term investment thesis on Veritiv remains strong and intact and I am happy to see that besides Seth Klarman and Jean-Marie Eveillard, we now have Donald Smith on the team of Veritiv believers as well.

Cordially,

Peter

Peter Coenen, 14 March 2018.
Founder & CEO of The Value Firm®

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