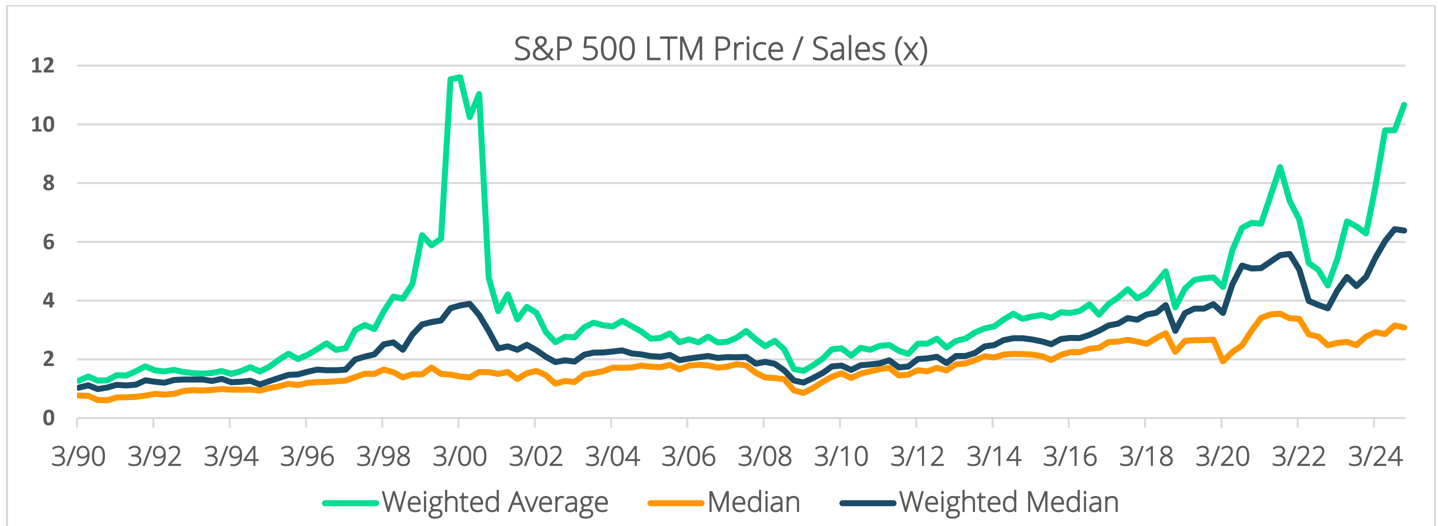
Research Perspectives
February–2025

Southeastern Asset Management

Our new mid-quarter notes will be approximately two pages, featuring the Business/People/Price case on two or more companies we own, along with one broader theme. This note's theme is that we believe there is both too much and not enough stock picking today. "Too much" refers to the crowd driving US big-cap growth favorites to dangerous levels. Historically, high multiples on high margins have not worked long term, even though it might have seemed safe to ignore valuation in the short term.



Source: FactSet

We believe value investing works because there is "not enough" of it, and prospective long-term returns are highest when it is most out of favor, as it is today. The value toolkit and mindset help us find and stick with what we believe is underpriced quality before the crowd gets there. Said another way, low multiples on not-yet-optimized margins should work long term but are not easy to find and do not always work right away. Our portfolios trade in aggregate at high-single to low-double-digit multiples of free cash flow (FCF) power (less than half of the levels implied in the graph above), plus our valuations do not capitalize the peak margins in the above graph.

Many have come to accept it as dogma that if you are going to pick a stock, it better be a growth favorite, and valuation does not matter. This is the "it is easy, so everyone is doing it" extreme you see at market tops. When we were recently reading an expert transcript on a high quality, undervalued company that we do not own yet, we came across the following that sounds like something you would hear at a cocktail party in 2000 or while getting a shoeshine in 1929:

Questioner: "Would you invest your own capital into [great company X]? I mean, we've talked about a lot of strengths, you sound like you think they have great leadership. The stock is down 50% over the last 18 months."
Former employee at great company X: "Honestly, I'm heavy into NVIDIA."
Questioner: "Well, that's done great."
Former employee at great company X: "Well, it went down the other day, but yes, it's been doing okay. Yes, honestly, I think I would go somewhere else [than great company X]... it just seems to me that there is not going to be a lot of growth there. I mean it's going to be solid. It's going to be steady, but I don't see it growing [as much as NVIDIA]."

Most stock markets around the world seem closer to the "not enough actual stock picking" extreme. The good news is that this is often where you find bargains. A favorite recent example occurred when we visited Kellogg in spring of 2023. They told us we were only the second investors to visit Battle Creek since COVID. This was a company worth over $30 billion. It felt lonely when we invested after this meeting, but we believe that is the right feeling to have when it comes to investing. Ultimately this worked out when the spun-off snacks part of the company, which was our focus, announced its sale to Mars last year at a great price.

Speaking of food companies that are off the radar, our first highlighted stock pick is Gruma, the world leader in tortillas and corn flour. We believe this is a great Business with both brand (you have probably seen their Mission tortillas in the US) and low-cost moats given their large market shares. The product responds well to innovation and has grown nicely for a long time. While the company is headquartered in Mexico, its US business is over 75% of the company's value. We are aligned with the People via the Gonzalez family's ~50% ownership, and current CEO Juan Gonzalez has done a strong job delivering for shareholders with numerous wise capital allocation moves since he became CEO over 10 years ago. We have owned the company since 2019, seeing steady growth in value and FCF per share. Yet, the Price remains undervalued because it is off the radar with its Mexico market listing at a time of tariff fears (even though its US and Mexico businesses are not cross-border businesses), its US business greatness is underappreciated, its non-US business is not yet optimized, and all things food are under a cloud today because of the rise in appetite suppressant drugs (GLP-1s). If you are looking for a catalyst and/or fearful of a Trump overhang, we would remind you that Gruma traded at or above our appraised value for most of Trump's first term before we invested in 2019, plus continued steady value per share growth can be its own reward.

Our next stock we would like to highlight is IAC. After being a conglomerate that was not focused enough for the last two+ years, the Business is likely beginning the process of slimming down to two high-quality assets: 100% ownership of Dotdash Meredith (DDM) and 20%+ ownership of MGM Resorts. DDM is a collection of digital-first media brands that is growing cash-flow double-digits. MGM, which we believe is materially undervalued itself, is the dominant player on the Las Vegas Strip (a majority of its value) and owns other assets that are yet to be optimized. IAC's stake in Angi is expected to be spun off in less than two months, and other assets such as Turo and Care.com could be monetized as well. The market does not yet recognize the full implications of recent People changes at IAC, with Chairman Barry Diller taking a more active role at IAC that will likely include share repurchase (and potentially intelligent M&A as has happened previously in IAC's history, but the bar is high), while Joey Levin and Jeff Kip should make a good team at Angi, which is undervalued itself. IAC might be the most undervalued security we own today on Price. It is well under a 50-cent dollar on our math, and we believe it is trading at less than 5x DDM+MGM growing FCF/share after accounting for what could happen with the other assets and the cash on the IAC balance sheet. Stocks like this, with aligned partners on offense, rarely remain undervalued for long.

Our bonus stock without its own full paragraph is FedEx. Now that the company has announced a spin-off of its Freight business, we will be getting what we believe to be two high-quality companies at great prices. Tariffs are an obvious headwind that is at least now somewhat in these prices. What is harder to put into a spreadsheet is the qualitative improvement that will come from clarity and accountability at each company, which we have seen play out many times in spin-off situations like this.

Thank you for reading. We believe the best way to connect is through meaningful discussions about companies, so please reach out to info@seasset.com if you would like to continue the conversation.

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