Watchlist Investing

Patiently finding and following great public companies

Issue #22 | January 2023

"One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100." – Charlie Munger

In this issue:

Annual Update Issue

Commentary / Editorial

In last year's update, I walked through the Watchlist issue by issue. This year I decided to group the Watchlist into industries. I hope this layout is useful.

What follows are high-level updates on Watchlist companies. Generally, I touch on changes in valuation since the original write-up, a quick financial update based on public filings, and any known/interesting operational or industry changes. This issue is not intended serve as a paste-in update or refresh to Deep Dives or other coverage.

I won't spend a ton of time giving you a "State of the Newsletter". To borrow the title of a book written by an ex-BRK executive, I'm pleased but not satisfied at how the newsletter is progressing. At the end of December, paid subscribers numbered 96, up from 54 last December. Substack readers grew from 944 in December 2021 to 1,917 in December 2022. Perhaps more important, I believe I've gotten better as an analyst over the past year. That's in no small part due to the feedback and interactions with you, dear readers. This community is made up of corporate executives, professional investors, analysts, individuals, students, and more. I consider myself lucky to be able to partially fund my living doing this each month. I hope I've earned your support for another year. Thank you! – Adam

Watchlist Updates

BANKING:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Auburn Bancorp	AUBN	#5: July 2021	$125 million	$81 million
Bank7	BSVN	#4: June 2021	$163 million	$252 million
Hingham Savings	HIFS	#1: March 2021	$600 million	$594 million
Jack Henry	JKHY	#11: January 2022	$12.5 billion	$13 billion
Plumas Bancorp	PLBC	#4: June 2021	$155 million	$226 million
Triumph Financial	TFIN	#21: December 2022	$1.1 billion	$1.3 billion

Disclosure: Long HIFS, TFIN

AUBN: Auburn Bancorp came on my radar during my first search through the Russell 3000 rebalancing project in July 2021 digging through the names of companies getting the boot because their market cap fell too low. There's nothing particularly exciting about the bank, which is sort of the point. It's a basic, boring bank based in Alabama that engages in everyday community banking. At the time of writing in June 2021, AUBN traded at 1.22x book and earned a consistent 1.00% ROA. Shares are down 35% since that time and trade at 1.33x book. What happened?

What happened was interest rates when up and its bond-heavy investment portfolio suffered the consequences. At year-end 2021, AUBN had 42% of its $1 billion in assets invested in securities, all of which was in fixed-income such as government agencies, mortgage-backed securities, and other state/local obligations. A whopping $244 million at 12/31/21 sat in maturities greater than a decade. The bank now sits on a $61 million unrealized loss position on that portfolio.

Asset quality appears to remain strong with net recoveries reported YTD. Non-performing assets remain low at just a few basis points.

In November the bank announced that its CEO, Bob Dumas, would retire to Chairman and its CFO would take the President/CEO title beginning in January 2023. In October 2022, the bank sold land next to its headquarters for $4.3 million and realized a gain of $3.2 million.

The bank should earn around $7.5 million this year notwithstanding the large write-offs on the bond portfolio. I'm still intrigued by this bank but not ready to pull the trigger just yet.

BSVN: Bank7 is another Russell rebalancing project find. Unlike AUBN, Bank7 historically had no investment portfolio, instead focusing entirely on loans. Its $1 billion balance sheet at FYE 2020 consisted of 83% loans and 17% cash. As of Q3 2022, the now $1.6 billion bank had 77% in loans, 11% in available-for-sale debt securities, and 9% cash. The bond portfolio is mostly Treasuries with some MBS and other debt securities but all very short-term < 12 mo. duration.

In October 2021, the bank announced it would acquire Cornerstone Bank, a $241 million asset bank in Oklahoma, and completed the deal in December 2021. Also in December 2021, majority owner, William Haines, offered 1 million of his nearly 3 million shares for sale. Notably, the bank's 750,000 share repurchase plan enacted in 2021 has not been used. At 1.86x book value the company isn't cheap, but I wouldn't call it overvalued, either. It generated a 2% ROA for three years and runs an efficient and focused operation. The bank has meaningful exposure to oil/gas, hospitality, and construction, so it's not without risk. But it's a bank I want to keep my eye on, for sure. Perhaps a Deep Dive refresh is in order this year.

HIFS: Hingham kicked off Watchlist Investing as the inaugural Deep Dive. It remains my favorite bank and one of my favorite companies, period. It is the second-largest position in my portfolio after Berkshire.

Hingham management continues to execute on its strategy of lending on low-risk real estate projects in the major gateway cities of Boston, Washington DC, and now San Francisco, while keeping overhead extremely low. The strategy is paying off. Hingham grew its balance sheet from $2.5 billion in total loans and $2.9 billion in total assets at FYE 2020 to $3.7 billion in loans and $4.2 billion in assets at FYE 2022. Core return on assets and equity were 1.89% and 17.3% in 2021, and 1.43% and 14.6% in 2022.

Only at Hingham does a poor quarter and weak finish to the year look like a decent result. Hingham's liability-sensitive balance sheet has taken a hit with the pace of interest rate increases, which means its cost of funding is rising much faster than what its assets are earning. Loan growth of 22% in 2022 mitigated the effect somewhat, as new loans carry up-to-date interest rates.

Results for Q4 2022 are illustrative. Net interest margin came in at a paltry 2.09% leading to a core ROA of just 0.96% and core ROE of 10%. Look at what transpired between Q4 2021 and Q4 2022:

	Q4 2021	**Q4 2022**	**Change**
Interest earning assets	3.68%	3.91%	+0.23%
Interest bearing liabilities	0.29%	2.24%	+1.95%
Spread	3.39%	1.67%	-1.72%

Again, not a bad result all things considered. It's Hingham's efficiency (efficiency ratio now up to 24% but operating expenses are just 70 bps of assets) that saved the day, on top of no net credit losses.

HIFS is a coiling spring. Shares have gone nowhere in two years despite quite meaningful business progress, and now trade at 1.6x book value. That's okay with me. It's been an ideal time to increase my ownership position. I only wish the bank could repurchase its own shares during periods of seriously depressed prices. I retain the utmost confidence in Hingham's management. This is a tough period but not one the bank hasn't navigated before. Here's Chairman Robert Gaughen (taken from the press release):

"…During all such periods - whether fair or foul weather - we remain focused on careful capital allocation, defensive underwriting, and disciplined cost control - the building blocks for compounding shareholder capital through all stages of the economic cycle. These remain constant, regardless of the macroeconomic environment in which we operate."

JKHY: I thought it made sense to put Jack Henry in with the banks. I considered shares pricey when I covered it a year ago. The company continues to generate consistent returns and good results from a pure business standpoint. Core revenue increased 10% in 2022, Payments revenue increased 10%, and Complementary revenue increased 11%. Net earnings increased from $311 million in 2021 to $367 million in 2022, but I don't think that's enough to justify the $13 billion price tag shares currently command. The company continues to pay out most of its earnings in the form of dividends and buybacks. The latter, if I'm right about valuation, continues to destroy shareholder value.

PLBC: Plumas Bancorp was covered as a Quick Look in June 2021. An intern working with me at the time wrote it up for the issue. Perhaps I should hire him full time. Shares are up 46% since that time. Nice find, Christophe! The bank does trade at nearly 2.00x book value, though its 1.50% ROA doesn't seem to justify such a rich price. The bank just reported 2022 earnings of $26 million. While that does include $2.7 million in gains on loans, from my review of the Q4 earnings press release results look good. Plumas has a nice base of low-cost core deposits and operates with an efficiency ratio in the mid-40s. Perhaps it's time I do a Deep Dive on this one.

TFIN: Triumph joined the Watchlist last month. The company just released 4th quarter results, which I'll summarize here. The balance sheet continued to shrink, ending the year at $5.33 billion, down from $5.6 billion the prior quarter and $5.95 billion at year end 2021. This is somewhat intentional given a focus on asset quality and building the payments network. The bank has a nice $1.8 billion slug of non-interest-bearing demand deposits and interest-bearing deposits costing 82 bps. All-in-all a nice position to be in.

Factoring and payments volume fell in the last quarter on trucking weakness. As CEO Graft notes in his quarterly letter, the bank must manage to profitability through the entire cycle. And cycles are a part of the business. On the upside, being a bank means lower cost funding compared to competitors. I found it interesting Graft noted the bank's ability to undercut competitors based on the bank's relative funding advantage but that they would remain long-term focused and rational. I see this as good discipline for a company attempting to grow its payments business (one that needs factoring companies). The letter notes that TriumphPay crossed the $1 billion volume mark in January, right before the first anniversary of launching the service. Also of note is the payments business in the 4th quarter was self-funding when considering the float generated from managing payments.

There is much more in the quarterly letter, which I'd suggest you read in full. It contains a three-year look-back and a three year look-ahead, including an examination of whether they achieved what they said they would do three years ago (mixed but mostly, yes).

Lastly, the bank repurchased just $24 million of the $100 million shares it was hoping to retire via the tender announced in Q4. The company announced it would seek to repurchase $70 million through an accelerated share transaction.

BEER:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Boston Beer Company	SAM	#7: September 2021	$6.8 billion	$4.4 billion
Anheuser-Busch InBev	BUDFF	#13: March 2022	$104 billion	$98 billion
Heineken	HKHHY	#13: March 2022	$40 billion	$42.5 billion

Disclosure: Long SAM and Heineken

SAM: Shares of SAM fell from $1,300 in April 2021 to around $550 in September 2021 prompting me to conduct a Deep Dive on the company and purchase shares. I loved the company's history and its debt-free balance sheet and thought the 60% decline in valuation overdone. Shares declined another 35% to $350, corresponding to a market cap of $4.4 billion, and have traded in that range since about March 2022.

I see a couple of factors weighing on the company. One is an overall decline in beer volume in the United States. A recent WSJ article pointed to increased prices tempering demand for beer. The price increases are necessary to offset input cost inflation and should result in a net increase in revenues as price hikes offset volume declines.

The other factor weighing on SAM is its focus on hard seltzer. That category slowed down dramatically in 2022 and resulted in the company taking a loss on unsold inventory and unused contract capacity. The net cost to SAM was $144 million for the first 9 months of 2022. While I probably underestimated the degree of decline in hard seltzer, I applauded management's decision to destroy inventory rather than sell it at a steep discount. SAM remains the #2 player in hard seltzer behind White Claw maker Mark Anthony. The category was down in 2022 but still made up and impressive 7.4% of total beer volume.

Where does all this leave SAM? TTM volume (across all brands) was just under 8 million barrels. That's about in-line where it's been the past three quarters and where it was going into 2021. Making some broad assumptions, 8 million barrels at $250/bbl. is $2 billion in revenues. Once the hard-seltzer write-offs run through the P&L SAM should regain a 15% EBIT margin, which would be a $300 million EBIT run-rate and ~40% pre-tax ROIC. Knock off 25% for taxes and you're at $225 million of after-tax income. At 19.5x after-tax earnings that's not an egregious price but it's not obviously cheap either.

BUDFF: The world's largest brewer still commands a large price tag. Shares remain about where they were when I covered the company in March 2022. Operationally, ABI turned in annualized volume of almost 600 million hectoliters through 3Q2022 (organic growth of 3.3%) and revenue per hectoliter up almost 8%. With revenue/hectoliter at $97 and a 30% EBIT margin, ABI should generate $17.5 billion in annualized EBIT. That seems great until you remember the company has about $83 billion of debt. Granted, that debt is at a now very-attractive rate of 4%, but it puts the enterprise value at $180 billion. Considering the company's stated goal of reducing debt, and its superior worldwide economic position, shares could be considered attractive.

Heineken: Shares of the world's second-largest brewer are up modestly from March 2022. As a reminder, Heineken has a unique structure where it is controlled by the Heineken family through a holding company. You can get a discount of about 18% by buying the holding company instead of the underlying business, a fact I still can't wrap my head around given the greater voting rights.

Through the first 9 months of 2022 organic net revenue increased 23% to €21.3 billion on volume of 218 million hectoliters. Loosening of restrictions in Asian markets, and in particular Vietnam, contributed to the strong performance. The company saw double-digit volume increases in 50 markets including Brazil, China, South Africa, and Vietnam. Heineken 0.0 (personally one of my all-around favorite beers) grew almost 8%. The Heineken brand overall grew 13% organically through the first 9 months of 2022, an impressive feat given some of the industry headwinds noted earlier.

Heineken received blessings from South Africa to buy Distell and Namibia Breweries, deals that are expected to close in the first half of 2023. I continue to admire Heineken. Its management team, led by a fourth generation Heineken family member, takes a very long-term view. The company's recent successes appear the result of careful planting of seeds years ago and a relentless focus on the basic blocking/tackling of business. The company has a long way to go building out its various markets, introducing low/zero alcoholic beverages, and riding the wave of premiumization across its many markets.

Heineken's annualized volume of about 290 million hectoliters should generate €28 billion in revenue. Translated in dollars that's about $30 billion. At a 15% EBIT margin that's $4.5 billion in EBIT. The company does have $18 billion in debt putting enterprise value at about $60 billion or 17.5x EBIT.

Other/Misc.: I haven't covered Constellation Brands as a Deep Dive, but it is an important player in the United States. Its ownership of the Modelo brand in the US is proving to be very lucrative. Modelo Especial is already the #2 beer behind Bud Light and gaining ground. I can't help but think that perhaps Bud Light's 75-year reign at the top is near an end. I don't see Bud Light going the way of Schlitz and disappearing, but who knows? Capitalism is brutal.

BERKSHIRE HATHAWAY:

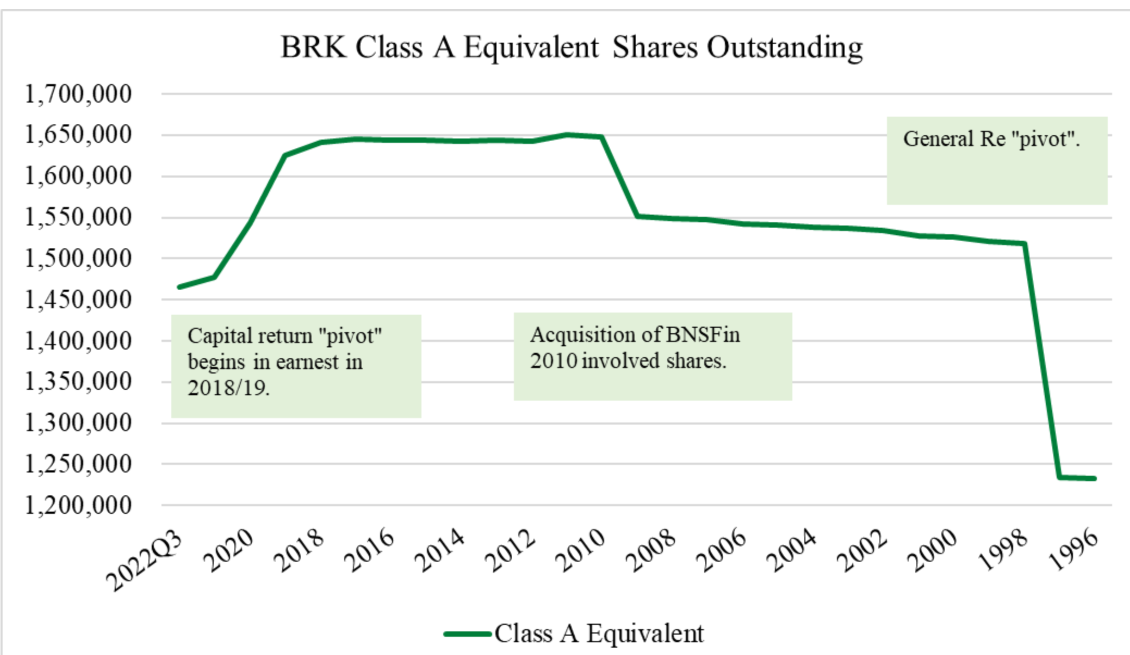
Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Berkshire Hathaway	BRKA, BRKB	#14: April 2022	$763 billion	$680 billion

Disclosure: Long BRK.B

Berkshire deservedly gets its own section. The issue was released just prior to the annual meeting last year. Given the company's importance in my own portfolio, and likely that of others, I plan to make the April issue the BRK issue each year. As a reminder, paid subscribers to Watchlist Investing Deep Dives have access to a live Google Sheet where I keep an updated sum-of-the-parts valuation on Berkshire. Let's dive in.

BRK shares are off about 7.5% since April 2021, compared with a 6% decline in the S&P. (BRK handily beat the S&P in 2022, up 3.3% compared to a 19.5% decline in the S&P. We digress…)

Over the past year BRK has retired about 1% of shares costing a little north of $5 billion. I'd expect the full year number to come in modestly higher. Berkshire likely picked up some additional marketable securities in the 4th quarter at the expense of more aggressively purchasing its own shares. The share count today is just 19% above where they were in 1996 prior to the Gen Re and BNSF acquisitions which both saw shares issued. Notwithstanding any major acquisition that involves shares (unlikely at current valuation levels), and possibly one year of aggressive buybacks, we might see a 1996-like share count return in 2028 – almost assuredly prior to Buffett's 100th birthday in 2030. But I digress again…



Berkshire sat on a cash pile (ex. rail / energy) of $105 billion at the end of Q3, so it has the firepower for repurchases or acquisitions and probably both. The company is a cash-generating machine. Let's look at operating earnings for the trailing twelve months ended 3Q2022:

- BNSF: The rail brought in $6.2 billion of after-tax earnings. We will probably hear that carloadings are down, especially in consumer sectors, when BRK reports earnings next month. That shouldn't affect the rail's earning power that much given its importance to a growing western United States.

- BRK Energy: The stable utility business is a consistent earner. It earned $3.7 billion after-tax and will probably report higher earnings for the full year 2022. These earnings increase largely because of additional capital investment. Berkshire hasn't taken a dime of dividends from its energy business since purchasing MidAmerican Energy over two decades ago. But the cash-generating ability is real. Last year we saw Greg Abel sell his $870 million stake to BRK. We'll see if the Scott family sells its interest this year.

- The manufacturing, service and retailing businesses span the gamut. They earned $12 billion TTM and should report good but mixed results for the full year. Included in this segment are the homebuilders and the auto business, which have been strong lately. Some of the consumer businesses will probably retain weakness going into 2023.

- I include an allowance for insurance underwriting profits in my valuation framework given its history. At current premium levels of $72 billion BRK should earn $2.9 billion in normalized pre-tax from underwriting activities. Results for full year 2022 will show some weakness due to storms, catastrophes, and continuing weakness at GEICO.

- Equity method: Berkshire also has partial interest in Kraft Heinz, Occidental Petroleum, Pilot Flying J, and Electric Transmission Texas that earn about $1 billion per year.

- Insurance income: My valuation framework doesn't capitalize insurance dividends and interest because I count the asset value separately (that would be double counting). But in looking at BRK's cash-generating ability it has a nice $5 billion per year stream of cash coming in from dividends and an increasing stream of interest income thanks to higher rates.

Add all these up and you come to a cash-generating ability of around $28 billion per year. That's hard, take-it-to-the-bank cash that Berkshire can invest organically, make bolt-on or other acquisitions, or repurchase stock. Berkshire also has a lot going for it going into 2023. It just purchased Allegany Corp for $12 billion, which will increase its earning power and float. It will also increase its stake in Pilot Flying J to 80% this year, laying out capital and increasing earnings at essentially no additional risk since it already knows the company well.

I'll leave a teaser for non-subscribers and only say I think shares are attractive at current prices. Subscribers can see my up-to-date sum-of-the-parts valuation model under the subscribers' section on watchlistinvesting.com.

FOODS & FLAVORINGS:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
McCormick & Co.	MKC	#3: May 2021	$24 billion	$21 billion
International Flavorings & Fragrances	IFF	#3: May 2021	$36 billion	$29 billion

Disclosures: None

MKC: I covered MKC and IFF as two Quick Looks back in May 2021. After nearly two years shares have declined in price. MKC still earns in the $700 million to $750 million range on about $6.4 billion in revenues. The company generates solid returns on capital but has few opportunities for organic investment. Instead, it continues to make acquisitions. In 2021, it purchased FONA International for about a year's worth of earnings or $710 million. Prior to that in 2020, it spent $800 million buying Cholula, another maker of hot sauces.

IFF: Likewise with IFF, it enjoys an enviable market position within a slow-growth industry. Of note, in February 2021, IFF merged with Nutrition & Biosciences and issued shares in the process. In 3Q22 the company wrote off $2.25 billion in an admission it overpaid for N&B. Even if the company can earn the $2.5 billion in bull$*&! Earnings (EBITDA) it expects in 2022, shares look pricey. Add $11 billion in debt to the current market cap and you have an enterprise value of $40 billion. True, post-depreciation pre-tax earnings power of IFF is probably no more than $2 billion. After-tax that might get you $1.5 billion. [Edit: IFF is probably a candidate for removal from the Watchlist. I don't know the company all that well and it seems there is enough I don't like about it.]

HOME IMPROVEMENT:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Home Depot	HD	#18: August 2022	$315 billion	$334 billion
Lowe's	LOW	#18: August 2022	$132 billion	$128 billion

Disclosures: None

HD: It's only been about three months since I covered HD. Shares are up 6% since that time. Not too much has changed operationally. The company reported mixed results for Q3 and YTD 2022. For the 9 months ended October 30, 2022, customer count was down 5.1% but average order ticket increased 9.7%. Sales/SF were up 5% for the period. Inflation is surely weighing on consumers and professionals alike. HD should earn $18 billion this year after tax. Is 18.5x earnings too rich? The company can probably grow organically at the population rate but is otherwise mature and limited in its ability to make acquisitions. I'd consider shares priced at least fairly at current levels.

LOW: Largely ditto for LOW. Order volume declined 5.4% but average ticket increased 8.4%. The company didn't provide sales/SF data, but it was probably slightly behind HD's 5%. LOW will likely report revenues around $100 billion in 2022 and should earn a 13% EBIT margin or $13 billion. After-tax that might be around $10 billion, meaning shares are priced at 13x earnings.

The dilemma remains: is LOW a better buy at a lower multiple with room to improve, or is HD the stronger and better positioned candidate but at a higher multiple? As always, the answer isn't immediately clear. Forced to choose I'd pick the better track record, but I'm leaving the bat on my shoulder right now.

LOGISTICS:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Old Dominion Freight Line	ODFL	#8: October 2021	$33 billion	$35 billion
Saia, Inc.	SAIA	#8: October 2021	$6.4 billion	$6.4 billion

Disclosures: None

ODFL: ODFL continues its steady progress toward the top of the LTL industry. Back in 2020, its market share of the top 50 carriers (basically the entire $50bn industry) stood at 9.4% compared to FedEx's 16.9%. Updated figures for 2021 put ODFL at 10.4% with FedEx gaining at a slower rate to 17.2%. Saia remained in the 9th spot but increased its share from a 4.3% share to 4.6%.

Continued strength in LTL contract and spot rates have produced impressive financial results at ODFL. Revenue grew from $4 billion in 2020 to $5.2 billion in 2021. TTM through 3Q22 revenue topped $6.1 billion. Likewise, net income ballooned from $672 million in 2020 to $1 billion in 2021 and $1.3 billion TTM. Operationally, ODFL continues to lead the pack with its 99% on-time rate, 20bps of cargo claims rate, and sub 70% operating ratio. Service centers increased from 244 in 2020 to 251 in 2021 and LTL tons should remain above the 10 million mark for the second year in a row in 2022.

Shares were pricey when I first looked at ODFL and they still look rich despite the stock flatlining for a year and a half. The company trades at 25x TTM earnings. Someday I'll have a chance to own you, ODFL…

Re: Saia, I mention the company to keep it on your radar. It's a nice, efficient, smaller competitor. Over the TTM Saia earned $360 million on $2.8 billion of revenues. Shares are less rich at 18x earnings but I'd still rather own ODFL given its history and market position.

WASTE MANAGEMENT:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
Republic Services	RSG	#6: August 2021	$38 billion	$38 billion
Waste Connections	WCN	#6: August 2021	$33 billion	$33 billion
Waste Management	WM	#6: August 2021	$63 billion	$62 billion

Disclosures: None

Shares of all three waste management companies covered in August 2021 have remained essentially unchanged since that time. I'm not surprised. At the time I concluded that shares were about five times overvalued for each company. The companies have made some progress working off that overvaluation but nowhere near the point where I'd be interested in taking a position.

RSG now earns about $1.5 billion on $13 billion of revenue. WCN is earning $800 million on $7 billion of revenue. And industry leader WM is earning $2.2 billion on $19 billion of revenue. It's somewhat surprising to me that these companies still trade at bond-like valuations despite the availability of actual bond alternatives.

In September 2022, WM announced it would acquire a controlling interest in Avangard Innovative's US post-consumer resin recycling business. This sets WM up to invest in the company to increase its recycling capacity from 100 million pounds to 400 million pounds in five years. A price tag wasn't disclosed.

In February 2022, RSG announced it would spend $2.2 billion to acquire US Ecology, a recycler of hazardous, nonhazardous, and specialty waste.

WCN, like its larger peers, continues to make bolt on acquisitions, including Trojan Recycling in Boston, Mass., but nothing major has come onto my radar screen.

INDUSTRIAL / OTHER:

Company	Ticker	Issue	Market Cap @ Issue Date	Current Market Cap
AAON, Inc.	AAON	#1: March 2021	$3.9 billion	$3.9 billion
Copart	CPRT	#20: October 2022	$26 billion	$31 billion
Fastenal	FAST	#9: November 2021	$33 billion	$28 billion
Sherwin Williams	SHW	#19: September 2022	$55 billion	$63 billion

Disclosures: Long CPRT

AAON: I covered this company in the very first issue in March 2021. I thought it represented the essence of Watchlist Investing, which was finding good companies regardless of valuation. At the time AAON traded at a market cap of $3.9 billion. Though the company earned over 30% pre-tax returns on capital, its revenues of $515 million and net income of just $80 million didn't seem to come close to justifying the price. Shares have gone exactly nowhere in two years. TTM revenue came in at $770 million but gross margin and EBIT margins are down. Net income over the same period was $67 million. While I can't claim to know the industry intimately, this does seem like a case where the market continues to be ahead of itself on valuation. Perhaps those more knowledgeable than me think the company could be a takeover target, which would be the only plausible reason for such a persistently high valuation. How about you, Dear Reader? Any insights?

CPRT: I just covered Copart in the October 2022 issue. Not much has changed since then. That the price / market cap is up 19% since I covered the company (compared to 7% for the S&P) is probably just noise. I stand by my fair valuation conclusion. CPRT has a lot of good things going for it with a lot of upside potential offsetting some clearly defined potential negatives.

FAST: Fastenal joined the Watchlist in November 2021. Shares are down about 15% since I covered the company. At the time I thought the stock clearly overvalued even though I really liked the underlying business. The company reported results for 12/31/22 last week. Revenues were just shy of $7 billion, operating margin was 20.8%, and net income came in at $1.1 billion. That compares to 2020 (two years ago) metrics of $5.6 billion in revenue, 20.2% margin, and net income of $859 million. Operationally, Onsite fastener locations increased 15% to 1,623 and branch locations declined 6.1%, resulting in total in-market location growth of 3%. If FAST's 25% after-tax ROIC is sustainable, the company could grow about 6% per year while distributing 75% of profits in the form of dividends and buybacks. I'm not sure that's enough to justify today's valuation.

SHW: Sherwin-Williams was just covered four months ago. Shares are up 15% since that time compared to 11% for the S&P. More noise. I concluded in the Deep Dive that I thought shares overvalued then and I'd stand by the statement now. SHW is a very good business albeit with so-so insider ownership / governance (not enough skin / tenure in the game). I think I'd need to see shares decline by half to get interested.

WHAT'S COMING NEXT ISSUE:

I'll be looking at small-cap bank Thomasville Bancshares (THVB) in February.

As always, I appreciate your thoughts, comments, feedback, and of course recommendations for companies to look at.

Watchlist

As of January 31, 2023

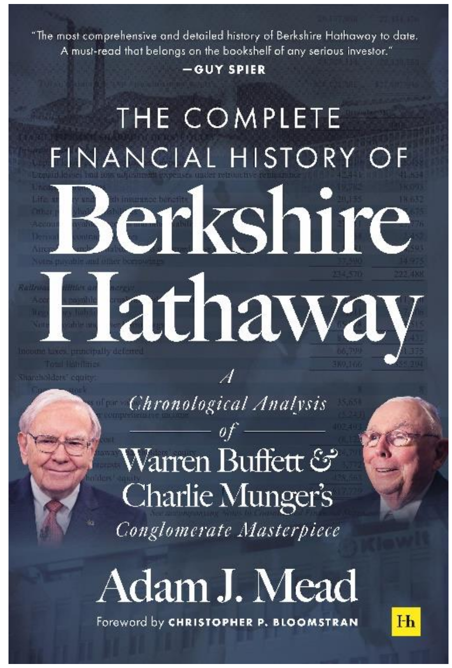
WATCHLIST Count: 25

Company Name	Industry	Ticker	Current Price	Market Cap	See Issue #
AAON, Inc.	Building Products	AAON	$76	$4,027,736,367	1
Berkshire Hathaway	Conglomerate	BRK.B	$309	$682,859,234,856	14
Hingham Institution for Savings	Banking	HIFS	$288	$617,081,124	1
Monarch Cement	Building Products	MCEM	$108	$405,389,200	2
International Flavors and Fragrances	Foods/Seasonings	IFF	$112	$28,545,567,678	3
McCormick	Foods/Seasonings	MKC	$75	$20,012,955,585	3
Bank7	Banking	BSVN	$27	$247,202,479	4
Plumas Bancorp	Banking	PLBC	$40	$234,284,962	4
Auburn Bancorp	Banking	AUBN	$24	$83,265,020	5
Waste Management	Waste Management	WM	$154	$63,065,686,029	6
Republic Services	Waste Management	RSG	$124	$39,275,752,150	6
Waste Connections	Waste Management	WCN	$132	$34,116,536,229	6
Boston Beer Company	Alcoholic beverages	SAM	$386	$4,744,444,824	7, 12
Constellation Brands	Alcoholic beverages	STZ	$229	$42,290,677,629	7, 12
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	$59	$105,067,500,951	7, 12
Heineken	Alcoholic beverages	HKHHY	$41	$43,578,955,008	7, 12
Old Dominion Freight Line	Logistics	ODFL	$333	$36,742,866,521	8
Saia, Inc.	Logistics	SAIA	$274	$7,250,846,481	8
Fastenal	Industrial Distributing	FAST	$50	$28,377,898,781	9
Jack Henry & Associates	Banking Software	JKHY	$180	$13,108,277,864	11
Home Depot	Home Improvement	HD	$322	$328,473,142,358	18
Lowes	Home Improvement	LOW	$206	$124,447,776,345	18
Sherwin-Williams	Paint/coatings	SHW	$237	$61,352,199,950	19
Copart	Vehicle remarketing	CPRT	$67	$31,816,841,453	20
Triumph Financial	Banking	TFIN	$55	$1,314,288,000	21

Click here to see the latest Watchlist and Suspect List on Google Sheets.

About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.



My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.

Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased here. I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.

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