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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Aiming for Good Risk-Adjusted Returns Over a Full Market Cycle

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SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Kirkland: Sure. Intrepid Capital started in 1995 and originally managed separate accounts. Beginning in 2005, we started launching no-load mutual funds. Today, we have six different funds and one long/short hedge fund. The six different funds all have different value-based strategies ranging from small-cap U.S. domestic equity to international equity, and then, we also have a high yield fixed income fund and a balanced portfolio.

TWST: And do you work on a specific fund there?

Mr. Kirkland: Yes. I am the Lead Portfolio Manager for the Disciplined Value Fund, and I'm a Co-Portfolio Manager for the Select Fund.

TWST: And did you want to talk about those funds?

Mr. Kirkland: Sure. I'll probably keep my focus a little bit more on the Disciplined Value Fund, as I was just recently named a Co-Manager on the Select Fund, but I'll give you a little color on that as well. The Disciplined Value Fund is really an all-cap strategy, but little bit more of a focus, I would say, on midcap names right now. The median market cap for the portfolio is about $9 billion. We have the flexibility to go up as large as **Apple** (NASDAQ:AAPL) and down to some very small or microcap names. The firm in general has historically focused on less efficient parts of the market, which we believe are the small-cap and midcap areas and short-duration high yield. So that's why the Disciplined Value Fund will lean a little bit more toward the small-cap and midcap side than your typical all-cap fund may.

One thing in particular to point out is, we are very valuation-sensitive. As valuations get very elevated or extreme, we will hold more cash. Therefore, in a bull market, late in a cycle, we tend to hold much more cash than the typical fund or our peers. We do this for a few reasons. One being, we don't want to overpay for a security, and first and foremost, we want to protect capital on the downside. We believe that if you're overpaying, you're subjecting yourself to potential greater downside losses. The objective is to participate in a bull market and protect downside, not to participate as much in a bear market. Today, cash in the Disciplined Value Fund is just under 20%, and that gives us flexibility when there is volatility in the market and mispricings and dislocations to quickly put money to work, as we have a list of companies that we would like to own, but right now, we do not think the valuation is all that compelling.

The Select strategy is our version of a fully invested strategy. It typically does not hold more than 10% cash. It's primarily small-cap and midcap focused and really takes the best ideas from two of our funds and holds those at a little bit larger weight, so it tends to be a bit more of a concentrated portfolio. The Select Fund has been around for a little over three years, whereas the Disciplined Value Fund has been around for about 11 years.

TWST: And did you want to highlight a stock that you find interesting now?

Mr. Kirkland: Sure. I guess I'll start with **Dollar Tree** (NASDAQ:DLTR). It's the largest dollar store company in the United States, slightly larger than **Dollar General** (NYSE:DG). **Dollar Tree** operates under two different banners: the **Dollar Tree** banner and the **Family Dollar** banner. Combined, they have over 15,000 locations across the country.

The two banners have a very different business model. **Dollar Tree** sells everything for the $1 price point in the entire store. **Family Dollar** has various price points ranging from $1 to over $10. **Dollar Tree** purchased **Family Dollar** in 2015 with the intent of turning the struggling retailer around. But the different business model seems to have caused some issues with integration, as it's been almost three years and **Family Dollar** is still struggling with some of the same issues that they were struggling with prior to the acquisition.

The issues lie only with **Family Dollar** because **Dollar Tree** is performing very well. They have strong same-store sales, industry-leading margins, firing really on all cylinders, and we believe the market is assigning pretty much the entire value of the company to the **Dollar Tree** banner. **Family Dollar** is getting very little value assigned to it, and that's because the same-store sales are still struggling, and margins have been very weak.

Overall, the **Family Dollar** banner has been dragging down the financials for the combined company. In our opinion, we think that there's a lot of low-hanging fruit that management should be able to pick off and change in order to turn **Family Dollar** around. This isn't really rocket science. It's a dollar store. We believe management will get it right and will ultimately be able to make **Family Dollar** into a successful enterprise.

We're not even assuming that **Family Dollar** gets close to the margins of **Dollar General**, which is the best comparison for the banner. Even if they improve to half the margin or if they bridge the gap halfway between current **Family Dollar** margins and **Dollar General** margins, you'd see a drastic improvement overall in the financials for the enterprise of **Dollar Tree**. So right now, as I mentioned earlier, the market is assigning about $2 per share worth of value to the **Family Dollar** banner, we think it's worth significantly more. In fact, we think that the combined company is worth about $105 per share. **Dollar Tree** stock today, I believe, is around $82.

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Lastly, the reason why we like the dollar stores and why we're attracted to them is because they've performed very well historically throughout recessions, the low-end customer continues to shop there, and then, you have a trade down from customers who may not be shopping there right now when times are good. They've shown a lot of resiliency throughout recessions and performed very well, which is something that we always look for in a business we want to own.

TWST: And so if there is a correction in the market or if there is a recession, the dollar stores could continue to do pretty well, given their customer base?

Mr. Kirkland: That's correct. Throughout the last recession, the dollar stores all had positive same-store sales. They performed very well. You did see a trade down from shoppers who weren't shopping there in, call it, 2005 or 2006, but when times got tough and when people started losing their jobs, they made that trade down and shopped there as opposed to going elsewhere.

And the other thing I'll point out is, with a footprint of 15,000 locations across the country, the stores are usually very, very close to where people live, especially in rural America. So it doesn't require customers to get in their car and burn a lot of gas to drive all the way to the **Walmart** (NYSE:WMT) or the closest supermarket, which in many cases is much farther away.

TWST: Did you want to mention another company?

Mr. Kirkland: A more recent purchase that we've made is **Madison Square Garden** (NYSE:MSG). It is the owner of the New York Knicks, New York Rangers and also owns the **Madison Square Garden** real estate as well as the air rights above it. The company owns entertainment, restaurant and nightlife venues as well. It's currently controlled by the Dolan family, and we think that it trades at a significant discount to private market value.

The bulk of the value is embedded in the Knicks and the Rangers. We're using the latest *Forbes* value for our base case. So for the Knicks, that's $3.6 billion. While these assets do not generate a lot of free cash flow, which is something we typically look for, the reason being is it all goes back to pay the players. But we like the fact that professional sports franchises, in general, have historically been very resilient in recessions. This is likely due to bids from billionaires for the trophy assets. In fact, valuations only fell by 4% in the last recession.

The other thing that I would point out is, transactions have historically come at a premium to *Forbes'* valuations. In fact, the last eight NBA transactions have come in at over a 32% premium, on average. This is also excluding the Clippers transaction, which was at a 250% premium. So we view our base case as being conservative from this standpoint. I'm guessing that when the new valuations come out next year, they will be revised higher, and plus, there could be even more upside due to the legalization of sports gambling, which I doubt *Forbes* will take into account at this point since that was just recently announced.

The bulk of the real estate value for **Madison Square Garden** is The Garden itself. We value it at $1 billion, which is right in line with the tax assessment. You could take **Macy's** (NYSE:M) as an example. It's about a block away, and its parcel is about half the size of **Madison Square Garden**. **Macy's** is valued at $3.3 billion, based on work done by some real estate professionals a couple of years ago. Now, of course, these two buildings aren't perfect comps due to the different uses, but the gap between what we're assuming of $1 billion and what Macy's has been valued at, at $3.3 billion, seems too large given the fact that the actual parcel is twice the size for **Madison Square Garden**. So in a bull case, you could value The Garden closer to $2 billion, and that would add about $40 to the valuation.

Another thing I would point out is that the Dolan family, historically, has been very good allocators of capital, and the company just announced that it's spinning off its sports businesses in a tax-free transaction. We believe that this will help unlock additional value once that goes through, which is expected to take place sometime in 2019. So right now, conservatively, we think that the shares are worth $330 but could easily make the case for a value closer to $400 per share.

TWST: Do you see them maybe looking around for anything else to acquire or just grow organically?

Mr. Kirkland: Yes, particularly on the entertainment side, once the spin takes place, I do think that the live entertainment company will be in the market and looking to expand. They're going to have about $1 billion in cash on hand, and then, they'll also own a third of the sports company as well, which at some point I'm sure they will monetize. So I do think that there are going to be transactions taking place in the future as well as some organic growth on the live entertainment side. I don't

Highlights

Clay Kirkland discusses Intrepid Capital as well as the Intrepid Disciplined Value Fund and the Intrepid Select Fund. The Intrepid Disciplined Value Fund is an all-cap strategy. But since the firm tends to focus on less efficient parts of the market, the fund leans more toward small-cap and midcap names. Mr. Kirkland is valuation-sensitive, so when valuations are elevated, he will hold more cash. He takes this approach because he doesn't want to overpay for a security and he wants to protect capital on the downside. This also gives him the flexibility to quickly put money to work when there are dislocations in the market.
Companies discussed: Apple (NASDAQ:AAPL); Dollar Tree (NASDAQ:DLTR); Dollar General Corp. (NYSE:DG); Walmart (NYSE:WMT); Madison Square Garden Co. (NYSE:MSG); Macy's (NYSE:M); Western Digital Corp. (NASDAQ:WDC); Samsung Electronics Co. Ltd. (KRX:005930) and Seagate Technology PLC (NASDAQ:STX).

think that's part of the plan on the sports side, but you never know.

TWST: Did you want to mention another company?

Mr. Kirkland: Sure. I'll briefly talk about **Western Digital** (NASDAQ:WDC). We've owned **Western Digital** for a while now. It's the second-largest NAND memory producer in the world behind **Samsung** (KRX:005930), and it's also in a duopoly with **Seagate** (NASDAQ:STX) for being the two largest hard disk drive suppliers as well. I should point out that **Western Digital** acquired **SanDisk** a few years ago, which got them into the NAND memory business. Now, their business is split about 50-50 from a revenue standpoint, but with NAND having higher margins, that tends to be where more of the focus is from the investor's side.

1-Year Daily Chart of Dollar Tree

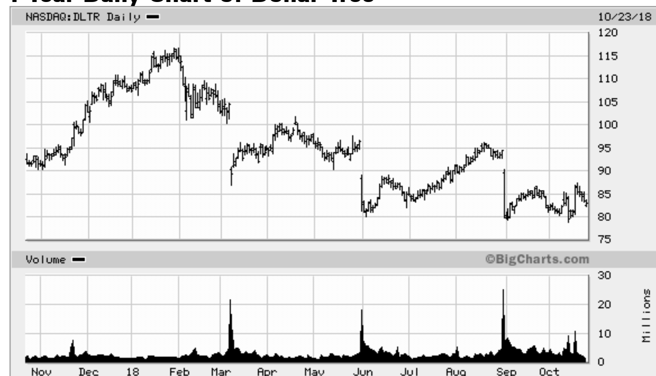

Chart provided by www.BigCharts.com

"NAND suppliers are concentrated and have been concentrated, the NAND market tends to act a little bit more rationally, and the NAND suppliers tend to be profitable over full cycles. So in our opinion, the cycle will be different this time."

The stock has fallen about 50% from its highs earlier this year, and really, it's all been because of concerns over the NAND cycle and whether the market is oversupplied. What we have seen as far as pricing is that it has started to come down earlier than management expected, earlier than they communicated with investors, and that has started to impact margins a little bit, but the company is still performing very well. Investors are concerned that this memory cycle will be like past memory cycles. Essentially, in these cycles, pricing goes up, and the suppliers ramp up supply to take advantage of the high prices until it's oversupplied, and then, pricing comes down, and eventually, the demand will eat up that supply as capacity is constrained.

We're in a little bit of a different camp here. DRAM memory cycles in the past have been very pronounced and very extreme because there was a lot less concentration in the suppliers. NAND suppliers are concentrated and have been concentrated, the NAND market tends to act a little bit more rationally, and the NAND suppliers tend to be profitable over full cycles. So in our opinion, the cycle will be different this time.

The good thing for **Western Digital** is, it's not a pure play on NAND. It also has hard disk drives, which some may argue are in secular decline, which may be the case, but they do act as a substitute of sorts when pricing is high for NAND. A lot of times, customers will switch — their capex will flow into hard disk drives as opposed to solid-state drives. From that standpoint, we view **Western Digital** as being a bit hedged from the NAND cycle, and the financials have shown that in recent quarters.

Now, demand for solid-state drives and NAND in general is in secular growth mode. Big Data, where every piece of information is saved or grows if it's useful, you have cloud storage, data centers, enterprise servers, the internet of things. Autonomous cars are going to require a tremendous amount of storage capacity. This is all helping drive demand, and in this case, even if the market does get oversupplied a bit, time is really your friend; as over time, the supply will be eaten up by demand.

Western Digital is one of the cheapest stocks in the entire S&P 500 right now in our opinion. It is trading for less than five times calendar year 2018 EPS. It generates a ton of free cash flow. They're buying back a lot of stock, announced a $5 billion stock buyback earlier this year, and we continue to expect it to pay out a dividend that is yielding about 3.7% right now. So while investors might be focused on pricing for NAND memory chips, we are focused on the financials and the attractive free cash flow yield that the company is generating right now.

TWST: And changing gears a bit, when you talk with investors now, what are some of their concerns as they look to the rest of this year and into next year?

Mr. Kirkland: Well, it really depends on where they're coming from. Many of our investors are private clients that are either retired or may be retiring in the next few years. They worry about whether or not the market is exhibiting some of the similarities that it did back in the late 1990s with valuations getting extremely stretched and whether or not we're going to have a prolonged period of market losses like we saw in 2000, 2001, 2002, because people who are of that age bracket where they may be retiring or are retired, oftentimes, cannot stomach a 50% decline in their portfolio and still be withdrawing money from it. So we are very focused, as I said, on protecting downside and making sure that our clients do not have that type of experience when the market takes a turn. That's definitely been one of the main concerns that we've had recently.

1-Year Daily Chart of Madison Square Garden Co.

Chart provided by www.BigCharts.com

TWST: And are they watching interest rates carefully as well and what the Fed might be up to?

Mr. Kirkland: I do think that some of our clients are paying attention to that. They see mortgage rates going up, read the headlines of interest rates going up. I'm not so sure that they all understand the implications that it has for the equity market, but now, you can actually earn a little interest in a savings account, whereas before you couldn't. So they are paying attention to those things, but I'm not so sure if they're as in tune to how it may affect company borrowing rates, affect buybacks, etc.

TWST: Do you want to discuss a little more about what you think the firm provides its clients?

Mr. Kirkland: Yes. We believe we provide our clients with very good risk-adjusted returns over a full market cycle. Our clients understand that we are absolute-value investors. So there are going to be times when we don't look great compared to the market, and then, there's going to be times when we look very, very good compared to the market. We offer them the assurance that we're not chasing returns or overpaying for stocks or bonds, given the associated risk that may be involved. Everyone here has invested alongside all of our clients. We pay the same fees as employees that our clients and shareholders pay. So our interests are aligned with our clients, and we're only trying to do what's best for them, and hopefully, that will result in a great outcome for all.

TWST: Thank you. (ES)

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling 866-996-FUND or visiting www.intrepidcapitalfunds.com. Read it carefully before investing.

The Intrepid Disciplined Value Fund and Intrepid Select Fund are subject to special risks including volatility due to investments in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Intrepid Disciplined Value Fund and Intrepid Select Fund may invest in foreign securities which involve greater volatility and political, economic, and currency risks and differences in accounting methods. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying portfolio of securities. ADRs may be subject to some of the same risks as direct investments in foreign companies, which includes international trade, currency, political, regulatory, and diplomatic risks. The Intrepid Select Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund.

Diversification does not guarantee a profit or protect from loss in a declining market.

Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations.

While the fund is no-load, management and other expenses still apply.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

Past performance does not guarantee future results.

Intrepid Capital Management, Inc. is the advisor to the Intrepid Capital Funds. The Intrepid Capital Funds are distributed by Quasar Distributors, LLC.

INTREPID DISCIPLINED VALUE FUND - TOP TEN HOLDINGS As of 9/30/18	(% OF NET ASSETS)
Oaktree Capital Group LLC	6.1%
Apple, Inc.	5.1%
The Western Union Co.	4.9%
AmerisourceBergen Corp.	4.8%
Berkshire Hathaway, Inc. - Class B	4.6%
Amdocs Ltd.	4.5%
Protective Insurance Corp. - Class B	4.5%
Laboratory Corp. of America Holdings	4.2%
The Bank of New York Mellon Corp.	4.1%
Teradata Corp	3.8%

INTREPID SELECT FUND - TOP TEN HOLDINGS As of 9/30/18	(% OF NET ASSETS)
Protective Insurance Corp. - Class B	7.7%
Amdocs Ltd.	7.2%
Net 1 UEPS Technologies, Inc.	6.2%
Oaktree Capital Group LLC	5.0%
Hallmark Financial Services, Inc.	4.5%
WPP PLC	4.3%
Laboratory Corp. of America Holdings	4.0%
iShares Gold Trust	4.0%
Teradata Corp.	4.0%
Jefferies Financial Group, Inc.	3.7%

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.