



## Broxton Portfolio

In May Broxton was up 7.09%, bringing the average returns to 5.99% for the year. June was characterized by trade war headlines which sent markets slightly lower in late June before rebounding. The purchase of Genworth by Chinese company China Oceanwide was approved which helped to send the portfolios higher. The world cup began in June with the final game played Sunday the 15<sup>th</sup> in Moscow with France beating Croatia 4 to 2 (Luzhniki Stadium in Moscow above). In general, high value shares (like ours) continued to lag momentum low value shares. Amazon.com, Netflix and Autodesk hit new highs in the month helping to propel the Nasdaq index. Highlights:

**Genworth: (GNW)** The Oceanwide transaction to purchase GNW at \$ 5.43 received approval from the Trump administration, sending the shares up 25%. State regulators New York and Delaware are working on their approvals. Meanwhile Zacks Equity research had a few positive comments on the company: "Genworth Financial is actually looking pretty good on its own too. The firm has seen solid earnings estimate revision activity over the past month, suggesting analysts are becoming a bit more bullish on the firm's prospects in both the short and long term. In fact, over the past month, current quarter estimates have risen from 25 cents per share to 27 cents per share, while current year estimates have risen from 92 cents per share to 98 cents per share." The shares are currently yielding about 17% to the close of the proposed buyout. GNW also trades at about 4.6 X this years earnings estimates.

**Viacom: (VIAB)** Although Viacom posted good earnings for the 1<sup>st</sup> quarter the shares dropped as much as 18% since the April 25<sup>th</sup> announcement. CEO Bob Bakish commented: "Financially, we met or beat guidance on all key metrics... All of this translated into consolidated adjusted operating income growth of 5% and 16% growth in adjusted diluted earnings per share for the quarter." Recently Bakish commented again in The Hollywood Reporter: "I fundamentally believe we made a lot of progress at Viacom in the last year or so,". His biggest disappointment so far? The company's stock price, the Viacom CEO said. "Fundamentally, we are not yet seeing a financial appreciation of what we have done." We agree with Bob and note that the shares trade at about 7 X this years earnings.

**RadNet: (RDNT)** Is Radnet in talks with any buyers? The company has historically commented that the final exit strategy may be a sale of the company. We note that there has been some pretty heavy buy out activity in the radiology practice space. A radiologist is a medical doctor who specializes in diagnosing and treating disease and injury using medical imaging techniques. Radnet employs and contracts for radiologists to service its' imaging centers. "There has been "massive consolidation" among radiology groups, with seven of the top 20 radiology practices in the country completing a deal within the last 18 months, according to McNeill Wester, a managing director at investment bank Coker Capital Advisors. Multiples in the space for larger practices are between 11x and 13x EBITDA or more, several advisors said". RDNT is concentrated in the owning and managing of imaging centers not radiology practices and we don't think that RDNT is in discussions, but these types of multiple would value the shares in the low to mid 20s.

### YEAR TO DATE

As of June 30, 2018

BROXTON **+5.99%**

### MARKETS

DOW JONES **-1.88%**

S&P 500 **+1.66%**

NASDAQ 100 **+10.20%**

HIGH YIELD **-2.50%**

REIT INDEX **-1.84%**

### BOND YIELDS

10 YR TREAS **2.85%**

YTD CHANGE **.44%**

30 YR TREAS **2.98%**

YTD CHANGE **.25%**

### SINCE INCEPTION

THROUGH DEC 31, 2017

BROXTON **488.15%**

S&P 500 **170.59%**

DOW JONES **209.91%**

## BROXTON PERFORMANCE



**ArcelorMittal: (MT)** Earnings estimates for 2018 continue to rise. Since April the consensus estimate has grown from \$3.91 per share to \$5.13 per share (source Yahoo finance). MT is the worlds largest steel maker accounting for roughly 7% of the world's 1.5 billion tonnes of output per year. The company's shares have been thrown about in the current market due to the imposition of tariffs amongst the various countries. However, MT operates in the U.S. and Europe with 17 facilities in the United States so we do not believe there will be much of an effect. The company is trading around 6 X this years earnings and about 4 X gross income or EBITDA. Pretty good, but things could be getting better: MT is on track to win EU antitrust clearance to acquire Italian peer Ilva after agreeing to sell a number of significant assets across Europe, two people familiar with the matter said. Ilva is bigger than U.S. steel and the largest producer in Europe. Last month Carlo Calenda, Italy's economic development minister, signed a decree approving the €1.8bn offer (incredibly cheap!!), led by MT, in a move that will deliver the century-old industrial concern back into private ownership. Ilva includes the Taranto steelworks in southern Italy, the continent's largest steel producer by output capacity. Go MT!!

## General Market

Merger arbitrage anyone? Once upon a time many decades ago there was a thriving merger arbitrage investment community. So thriving that some of the participants got in trouble for finding out about the mergers before they happened and investing in them! But these days it seems that all of the funds, people and investors have generally disbanded despite a large availability of deals. The recently closed Time Warner buy out by AT&T had traded at discounts of as much as 18%. The above-mentioned Genworth buyout is trading at a 17% discount. Currently two other mega billions deals are being processed, the CVS drug store purchase of Aetna health Insurance (\$65 billion) and the Cigna Corp purchase of Express Scripts (\$50 billion). Simultaneously the bidding war for Fox networks between Disney and Comcast breached \$65 billion. What is driving the boom? To some degree the threat from Amazon.com. This was cited as the reason for Wal Marts acquisition of India's Flipcart, a leading e commerce company. Concern from CVS and Walgreens over Amazon entering the pharmacy space may have led to the acquisition of Aetna by CVS. In addition, the low interest rate environment is also a contributor. So far in 2018 over \$2 trillion in deals have been announced. However, often "deal fever" can predict an economic slowdown. The last two peaks in mergers came in 2007 and 2000. In 2000 over \$3 trillion of deals were announced. It is hard to say because we may be entering a period where banks start to lend more freely causing economic growth!

## Broxton Capital Advisors

Broxton Capital is an investment manager located in Los Angeles and employs The Primary Broxton Strategy or "PBS." The Primary Broxton Strategy or "PBS" for managed accounts. The PBS is a bottom up, fundamental strategy that seeks higher total returns with lower risk. The focus is on low risk investments with attractive return (LRAR Securities) with an average holding period of 18 to 36 months. The strategy invests in high yield, fixed income, and equities but does not have any allocation mandates.

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