To: Culibrk Partnership Partners
From: Stefan Culibrk
Date: January 8th, 2018

Dear Partners,

The Partnership recorded a gain of 40.2% during 2017 and a gain of 7.1% during 1.10.2017. – 31.12.2017.

| | Return | S&P 500[1] |
|---|---|---|
| Quarter | 7.1% | 6.6% |
| 2017 | 40.2% | 21.8% |
| Since inception (Jan 2015) | 110.5% | 38.3% |

Regular readers of the letters know that I see a difference between the business and the profession of investing. Culibrk Partnership does not aim to be in the business of investing. I do not strive to minimize volatility in order to risk-manage the business and collect management fees on an ever increasing asset base. I see investing as my profession. The goal is long-term wealth creation while limiting the possibility of a permanent loss of capital. I manage the portfolio as if I had my whole net-worth invested (I have 95%). Although useful as a yardstick for long-term performance and assessment of my added value, I don't take the benchmark or sector weights into consideration when investing. Clarity of thought on this topic was greatly enhanced by a mistake committed in 2016 (Lesson 2 on page 3).

Over the past years, I have realized that the choice of investing as a profession over investing as a business allows for two unforeseen advantages. The first advantage is that I better appreciate owner-operators. Liberty Ventures, an entity controlled by John Malone, trades at a 20% discount to net asset value because of "complexity". On the other hand, the market is happy to underwrite a manager charging 2 & 20 because he is "sophisticated". I stand puzzled and invest in Liberty Ventures.
When an owner operator is ignoring quarterly EBITDA, I can understand that. Focus on long-term returns on capital and normalized free cash flow makes sense to me. I don't manage the portfolio with a hope of optimizing quarterly results either. I'll also understand if he goes on an aggressive acquiring streak when the rest of the industry is panicking. I would do the same.

These insights somehow escape the broader investing community. I think that the incentives can take part of the blame. Put a well intentioned manager in a structure that has a large management fee and an annual performance fee with no high-water mark, then call him up after he is underperforming the market by 2% in a month... and watch all sorts of deviations happen. An owner operator is a lot like an investment manager who has a significant portion of his wealth invested alongside partners.

The second advantage is that partners are self-selecting. Investing alongside a family residing in Serbia that invests in global businesses requires real interest in the investment process taking place. I don't have nor intend to have a sales force. Meetings with current and prospect partners are typically spent discussing intricacies of our investments. I know that my choice of the profession of investing over the business of investing is to blame.

[1] Note: S&P 500 returns measured by SPX

Lessons from the first three years: error of omission, error of commission and a success

Learning from our own successes and failures is a fertile ground for progress. Such lessons set us up for future successes. Investing, and quite a few other activities, have short term results driven largely by luck (if you think this is not the case, try losing on purpose). When luck is the driver, there is typically low quality feedback. When we receive high quality feedback, and we can tie an action to a result, we should use the opportunity for reflection.

Lesson 1: Ferrari - extrapolating one's own reality (and ignoring turbo-folk/rap wisdom)

Ferrari is a unique, globally accepted status symbol. Comparing to a Louis Vuitton bag or a Burberry coat, Ferrari has no risk of being counterfeit. Ferrari is the real thing. Singers from all corners of the world use the brand to appeal to the audiences (while lifting their status).

Serbian turbo-folk singer's dying wish is a red Ferrari:

"Before I come to you God, please grant me this wish
Give me a red Ferrari, a curvy road
This will be my first lucky day
Give me a red Ferrari, it will be my glorious end"

Gucci Mane, an American rapper, literally spells out Ferrari's pricing power:

"My name ring bells, my engine loud as hell
S**t, my 'Rari cost about 230 bills"

I missed investing in Ferrari for the wrong reasons. In February 2016, following the separation from Fiat Chrysler, this unique company was trading at 23x P/E FY 2015.

I thought that in the long term, Tesla sports cars would be surpassing Ferrari as a status symbol, weakening its pricing power. Driving a Tesla Model S certainly portrays one as wealthy, but also as someone who is attuned to the technology and cares for the environment. I was perhaps right for the San Francisco crowd, but the rest of the world and especially Asia, will for a long time be happy to show off their success by riding a red Ferrari into the sunset.

During the Great Recession, Ferrari sold fewer cars across the developed world. This decline was offset by Chinese and Middle Eastern growth. I thought that Ferrari was less recession-proof than other luxury brands. This insight, while possibly true, is not nearly as relevant as I thought at the time. I overly worried about the short haul and how Chinese slowdown might prove that global car sales were close to their peak. I insisted on paying a significantly lower multiple for Ferrari than what the other luxury brands with similar margins were trading at. My bid was USD 28/share, P/E FY 2015 < 20x. I aimed to invest 8% of our portfolio.

Ferrari's stock price came close (USD 31/share) to my limit order, but it never looked back. Following the spin off from Fiat Chrysler in January 2016, Mr. Marchionne, Ferrari CEO, executed on his plan. The company managed to increase production at lucrative incremental margins while keeping pricing power intact as it stayed far away from saturating the demand. Recession in China didn't materialize. Two years later, Ferrari is trading at USD 105/share, as LTM net profit is 77% higher than in FY 2015. That 23x P/E was 11x P/2017 E.

My error was shallow work that led to failure to appreciate the robustness of such a fantastic business. It was an expensive error. I learned to value the strength of the brand whose power translates into sustainably high margins and robust returns on capital. I understood how essential it is to talk to customers to hear their perspective. Especially if the product is not on my purchase list. Listening more closely to turbo-folk and rap might help as well.

Lesson 2: S&P index hedge - the fear of looking wrong

In January of 2016, instead of talking to the owners of Ferraris, I started to think about ways to protect the portfolio from a broad market price correction. I implemented an index hedge. I was venturing outside of my circle of competence. I should have known better.

I suspect that the fear of looking wrong was the driver of the decision to hedge. It is obvious that paper losses from a correction are simply a price one has to "pay" for robust long-term results. I have implemented operational changes that are protecting me from such pressures in the future. Being clear about being in the profession of investing no matter what the clients say or do is an important lesson. This is a mistake that won't be repeated.

I learned that is important to stick to the routine, especially if Mr. Market is feeling moody. When the SEC filings are swapped for opinions, the quality of the investing process takes a hit. I turned this experience into a read-do checklist that will help bring clarity in the next downturn.

This lesson didn't come cheap. I realized a -9.3% contribution to the portfolio from the hedge. This loss wiped out one third of our gains for 2016. It cost almost as much in compounding, as the portfolio has rallied 70% since realizing the loss.

Today I'm cheering for the next downturn and hope it will come soon. There are multiple businesses I would love to own at the right price. I'm eager to deploy our large cash position.

Lesson 3: Liberty Ventures (Charter) - sizing the fat pitch

It is rare that an exceptional business, within one's circle of competence, run by the best owner operators in the industry, is offered at an attractive price. To make it an ultimate investment, those owner operators were significantly increasing their stake at market prices.

First question should always be: why does such an opportunity exist? If the concerns of the market can be dismissed and a variant perception can be developed, it is only appropriate to invest aggressively. Fears of cord-cutting, Time Warner Cable merger and Liberty Ventures "complexity discount" allowed me to jump on the opportunity in full size.

Liberty Ventures and Liberty Broadband position ranged from 10% to 35% of the portfolio. It accounts for 20% of the portfolio today. Its contribution to the returns has been 20%.

The upside case for Charter remains intact: increasing free cash flow per share amid higher broadband penetration, higher prices for broadband, lower capital intensity and aggressive share repurchases. The case for Liberty Broadband/Liberty Ventures consolidation into Charter is more likely as the acquisition of General Communication closes in Q1 2018. I'm closely watching regulatory changes as I see regulation as the highest potential source of the downside to the thesis. A Bernie Sanders administration wouldn't be as beneficial to the industry as Trump was and the widely-hated cable providers and net-neutrality could be an easy target.

It is virtually certain that the years to come will bring new errors and lessons. Being open-minded about being wrong, searching for disconfirming evidence, acknowledging reality and ultimately accepting that the mistake has been committed are the only ways to protect against permanent impairment of capital in the long run.

New positions

Ryman Healthcare

Ryman Healthcare is the largest retirement village operator in New Zealand. Appalled by the conditions in retirement homes across New Zealand, founders Kevin Hickman and John Ryder started their own retirement village business in 1984. They centered it around genuine care. Customer journey starts by offering clear and fixed financial terms. Elderly are not prey at Ryman. Its unique culture made it loved by the customers. New Zealand regulation on occupational rights agreements (ORA) made it a major success for investors.

Ryman plans, designs, constructs, markets and operates retirement villages. Having all segments of the retirement village business in-house ensures consistently high quality of execution and predictable costs. Villages offer a continuum of care: independent service units, serviced units and care center (including rest homes, hospitals and dementia care). Ryman's offering enables spouses and friends to stay together as long as possible. Majority of Ryman competitors are reluctant to invest in care facilities, which they (rightfully) see as a lower margin business. Ryman currently operates 30 villages in New Zealand (5,717 independent/service units, 3,199 care beds) and one village in Victoria, Australia.

I think Ryman is undervalued. The market is missing the power of Ryman's flywheel. Ryman delivers superb return on equity and a growing value to its shareholders by building profitable villages using other people's money. Ryman's float coming from ORA is interest-free, asks for no collateral and has no repayment risk. Ryman's liabilities to customers are like a perpetual zero coupon bond. What is the real liability to Ryman? Certainly not book value. I think it can be closer to zero. Given Ryman is still in the early innings of a long growth runway, its stock should compound at 15+% p.a. over the next decade.

Please reach out for a more detailed analysis of the business.

At the end of October, a brief panic regarding the incoming New Zealand government send the shares plunging. We paid NZD 8.8/share and established a 4% position.

Aimia

Aimia is the owner of Aeroplan, a loyalty program with 5m customers in Canada whose main partner is Air Canada. Earlier in 2017, Air Canada announced that it will not renew their contract with Aimia once it expires in 2020. Aimia shares went on a brutal 81% decline. The market feared a "point run" would happen (more on that below). The dividend on common and preferred shares was cut. I thought this can be a situation where the market confuses risk with uncertainty. With rather conservative assumptions I valued Aimia at CAD 4.8/share in a negative scenario and up to CAD 20/share in a more positive (but not outrageous) one. We purchased shares of Aimia at CAD 2.52/share in October. Aimia is 3% of the portfolio.

Apart from Aeroplan, Aimia owns the largest UK loyalty program business Nectar, whose main customer is Sainsbury's. It has very successfully participated in a joint venture with Grupo Aeromexico to create PLM, an owner of Club Premier, the largest and fast growing Mexican loyalty program. Aeroplan and Nectar (programs from Aimia) exist to connect accumulation partners such as banks (TD, CIBC, Amex), airlines (Air Canada) and grocery stores (Sainsbury's) to customers. Aeroplan provides the platform via which accumulation partners reward their customers with points/miles/units which they can exchange for flights (most common option) or other goods with Aeroplan's redemption partners. Accumulation partners see points as a form of marketing that brings new customers and retains the old ones. Aeroplan provides accumulation partners with analytics on customer behavior.

Redemption partners are typically companies whose products/services have a very high incremental margin as they profit the most from the guaranteed purchases that Aeroplan brings. It is also convenient for redemption partners to have incremental capacity filled at less than a transparent price - discounting might damage the brand. To date, airlines have been the biggest spenders of loyalty program points, including Aeroplan, where 80% of rewards are spent on Air Canada and Star Alliance flights.

Aeroplan has three sources of earnings:

1) Gross margin - Aeroplan uses economies of scale in purchasing to secure a spread between what they sell the unit for to accumulation partners and what they pay per unit to redemption partners. Aeroplan controls what redemption options it shows to the customers and can tilt their preference for higher gross margin products. By offering higher margin, but less desirable products, Aeroplan risks alienating customers and, equally importantly, accumulation partners.

It is worth mentioning that running a loyalty point program is somewhat like running a central bank. Aeroplan ultimately decides the value of its points. If the spread has not been lucrative, Aeroplan can devalue its points. Unlike other companies with liabilities, in the event of a crisis, Aeroplan can decide to devalue its points and wipe off the liabilities. Fully devaluing the liabilities would certainly shut down its business, but it would also be protecting the downside for the shareholders. A slow, but steady devaluation can be a very profitable route. In 2016, a 1% change to the average selling price of a loyalty unit moves profit before tax by $16.9m, while a 1% change to the cost of rewards moves profit before tax by $12.3m.

2) Float - It arises because of the cash flow timing mismatch between receiving the money from accumulation partners and spending it with redemption partners. Accumulation partners pay Aeroplan as soon as their customer earns the points. This is registered as a gross billing. Aeroplan pays redemption partners once the customer redeems the points. This is when the revenue and cost of rewards is recognized. As customers typically save points in order to spend them on a product or a service that is more valuable (an overseas flight or a family vacation), it takes time to collect the points. Duration of the mismatch is typically 30 months.

3) Breakage - Some of the customers don't redeem their points although the accumulation partners have paid Aeroplan for the points. These points, called "breakage" are pure profit for Aeroplan. On average 12% of the points are not redeemed. This is low by industry standards (Alliance Data Systems, American provider of loyalty programs, has a 20% breakage on Air Miles program) as Aeroplan was trying to grow its business and incentivize customers to spend. A 1% change in breakage would hit total balance of breakage by $194m (and $19m the current year flow). Changing the value of each point, its transferability, flexibility to combine with other currency and the ease or difficulty of booking, are all tricks that lead to a change in breakage and short-term profits. When playing with breakage, management needs to keep an eye on long-term customer satisfaction.

It is important to highlight how customers behave with loyalty points. Customers don't feel like they paid for the points. It doesn't feel like money. Customers are spending less rationally, on gifts that they would never pay with cash. These gifts usually have high margins. On the downside for the loyalty program operators, when a program loses share of customer mind, it usually registers an increase in breakage. Average customer has been with the company for ten years and redeems once in two years.

Loyalty programs work very much like a ponzi scheme. If accumulation partners are alienated by the changes with Air Canada, they will stop promoting the Aeroplan cards.

This will cause the gross billings to decline, cutting off a source of funding for the redemptions, causing the virtuous circle of Aimia's float to turn into a vicious one.

Relationships with CIBC, Amex and TD are crucial for Aimia. Aeroplan customers tend to be some of the most affluent Canadians. The banks have already invested in their client relationships, mostly via points that are given away by the bank when a new client is on boarded and Aeroplan card is issued. If the banks were to cancel Aeroplan and move the customers somewhere else, they would be liable to compensate customers for the points that stayed at Aeroplan. It would be pure breakage profit for Aeroplan and an unnecessary cost to the banks to replicate what customers had at Aeroplan, which might be even higher than their initial acquisition cost. Banks could potentially share the transition cost with a new partner. There is certainly no rush to do so.
It is nearly impossible to envision how the loyalty and payments industry would work in 2024, when the contract renewals are due. Until then we can focus on the more predictable - change in pace of gross billings.

Accumulation partners might attempt to use Aeroplan weakness to renegotiate their terms, possibly limiting the gross margin (by demanding more attractive rewards for their clients or a limit to the depreciation of points). Aeroplan rewards could be less attractive from 2020, given that the new potential partner(s) will have different routes and/or seating options than what the customers are used to with Air Canada. Latest communication from Air Canada has been indicative of their will to continue partnership with Aimia.

If the customers are tied to Air Canada flights and Aimia fails to provide the flights, they will plan departure from Aeroplan by spending the loyalty points and then onboarding Air Canada's own program. I think this will not be the case, since the Air Canada flights used by Aeroplan customers are largely holidays or non-business flights, without predetermined preferred routes.

The transition should look like this: miles earned until June 2020 can be spent at any of the current redemption partners or will remain with Aeroplan after that date. Going forward, miles earned from Air Canada flights will start to be accumulated with Air Canada loyalty program.

Aeroplan is not as desperate as it looks. WestJet, a competitor to Air Canada, could use the committed traffic and knowledge regarding the buying patterns of Air Canada's best clients.

The key to investing in Aimia was valuing it in parts and probabilistically: value of PLM stake, cash flow generated by 2020 and multiple paid on exit in 2020. There is no science or surgical precision to this valuation. I put 20% chances on the upside case (Aeroplan keeps working post-2020), 20% on the 0 case (point run materializes) and 60% on the downside case (Aeroplan profitability weakens materially post-2020). Probability-weighted, fair value is $6.5/share in three years. Elevated risk of capital loss reduces the possible position size until management shows conviction in the turnaround process.

<u>LGL Group</u>

LGL Group is a defense/aerospace electronics and timing products company. The demand for their products is set to increase from the need for electronics for control, radar, positioning, etc. I came across the company because it was undergoing a large rights offering ($5.5/share) underwritten by the largest insiders - the Gabelli family. For knowledgeable insiders of a small capitalization company with limited free float, rights offering is usually a way to increase ownership without disturbing the market price. During the rights offering, the company received an offer for a takeover of its businesses. The outcome of the bid is not yet clear.

Assuming a sale of the businesses at the price of the reported bid, NAV/share should be c. 15% higher than where we purchased what will become a Gabelli-run cash shell looking for an acquisition (a SPAC without the usually generous deal for the operator). Alternatively, we are getting a growing business at an attractive valuation (0.3x EV/sales) or, from an asset side, near liquidation. I think the downside is limited. I like being aligned with Gabelli as the owner and Michael Ferrantino as the operator of the present business. We purchased shares of LGL Group at $5.74/share in early October. LGL Group is a 5% position.

Exited positions

Sports Direct

I think that a shift in business model from a low cost, efficient operator towards one with significant real estate, targeting mid-tier customers ("Selfridges of sports"), was a step into the unknown. It was far enough from my original thesis on investing in Sports Direct to sell the position.

Corporate governance was not the biggest concern when we invested in Sports Direct in June 2016. However, I think it keeps deteriorating from a low base. I think there is a non-zero risk that minorities pay a significant cost because of it. The recent vote on compensation to the founder's brother was a step too far. I think that taking the company private during the next down cycle is a real possibility, making the returns from holding Sports Direct path dependent.

Luckily for us, the market loved the early results of store upgrades and we managed to sell our stake at a 16% profit.

Emergent Capital

We invested in 2016 because of the wide discount to tangible book value and high discount rates applied to the assets. In the beginning of 2017 the company raised significant equity after cash inflows from the policies failed to materialize at a pace necessary to keep paying the premiums. The business of viatical settlements ultimately proved to be out of my circle of competence. We realized a -3.55% contribution to the portfolio after I sold at an 88% loss.

Purchased and exited

Seamless Distribution (now renamed Invuo Technologies)

The Partnership had established a small position in Seamless Distribution, a Swedish e-payments and mobile wallet company with market capitalization of $15m. It appeared that the company was trading substantially below its net liquidating value due to significant proceeds from an IPO of a unit in Q2 2017. The company was raising additional capital in a rights offering and I suspected that the offering was taking place for the insiders to increase ownership at low prices before a turnaround takes place (rights offering was priced at a 55% discount to the pre-announcement price). The turnaround focusing on the mobile wallet B2B technology appeared to have traction. However, upon the publication of the Q3 report, I noticed significant unreported accounting irregularities, causing me to liquidate our whole position at a 5bps cost to the portfolio.

Sizing changes

We increased our stakes in Discovery, Liberty Broadband/Ventures, LiLAC, and Zedge, as the gap between my estimate of fair value and market price widened. We reduced our stake in PICO Holdings by a quarter following the special dividend announcement at $20/share.

Culibrk Partnership
Largest Gains and Losses
For the Twelve Months ended December 31st 2017
(% contribution to the portfolio)

| Largest Gains | Largest Losses |
|---|---|
| Liberty Ventures (+11.5%) | Mongolian Mining Corp. (-1.36%) |
| Idorsia (+5.39%) | Emergent Capital (-1.13%) |
| PICO Holdings (+2.98%) | LGL Group (-0.17%) |
| Sports Direct (+2.89%) | Liberty Global LiLAC (-0.11%) |
| Credit Acceptance Corp. (+2.73%) | Seamless Distribution (-0.05%) |

Liberty Ventures

The acquisition of General Communication (cable operator in Alaska), announced in April 2017 and set to close in the first quarter of 2018, will make newly founded GCI Liberty asset-backed. One effect of this transition will be the elimination of some of the discount to Liberty Ventures net asset value (currently at c. 20%). I hope the discount will remain, as cash flows from the cable operator will be directed towards buybacks at a discount to an undervalued NAV.

Charter and Liberty Broadband shares are 82% of NAV of Liberty Ventures. Charter will be repurchasing shares at 10%/year. I think that the collapsing of the discount within three years and rapidly increasing free cash flow per share at Charter will allow for compounded returns in excess of 20% from current levels.

We hold 20% of the portfolio in Liberty Ventures and Liberty Broadband shares. It is our biggest position, as some of the cash (our current cash position is 17%) was allocated to the shares during the price correction following the most recent quarterly results.

Idorsia

We invested in Idorsia in February 2017 (via Actelion) and in June 2017 when it spun off. I thought that the market is confusing risk and uncertainty of how much Idorsia pipeline is worth. It is still very much hard to value Idorsia is. It is highly likely that the knowledgeable founders, who negotiated hard to keep Idorsia as a stand alone company after Actelion gets acquired, know better. Mr. and Ms. Clozel purchased a 20% stake in the open market in the first month of trading. This kind of conviction is rarely seen in public markets. Riding sidecar with the Clozel family is certainly not a way to the poorhouse. We paid an average of CHF 12/share for Idorsia shares (accounting for our Actelion profits). Idorsia shares finished the year at CHF 25.3.

Since the separation from Actelion in June 2017, Idorsia reported several positive developments. In July it announced that ACT-541468 met primary endpoint in phase 2 in adult and elderly patients with insomnia. It is now moving into phase 3. In December it announced collaboration with J&J on aprocitentan, a resistant hypertension candidate. Idorsia is set to receive a $230m milestone payment, equally share phase 3 development costs and receive royalties of 20-35% of net sales depending on the absolute dollar sales. Subsequent to aprocitentan, Idorsia has announced research collaboration with Roche in the field of cancer immunotherapy. Idorsia is set to receive an upfront payment and up to CHF 410m for regulatory milestones. It will also be entitled to one-time milestones based on sales thresholds, as well as tiered royalties on annual net sales of all products resulting from the collaboration. We keep a 7% position in Idorsia.

PICO Holdings

The company keeps demonstrating what a difference does a properly incentivized and focused board makes to a business. The board implemented what PICO Holdings clearly needed: prudent capital allocation for the stage in which the company is in and the right incentives for the management. In October 2017 PICO Holdings announced exploration of strategic alternatives, including possible sale of the company. Typical buyer for water assets is a large real estate developer. In the past quarter PICO Holdings also announced a sale of its stake in Century Communities and paid out a $5 special dividend to the shareholders. The dividend was treated as a return of capital and was tax-free. In December a small sale of long term storage credits in Arizona was done at a price higher than what I previously thought is a fair price.

The shares closed the year at $12.8/share (post-dividend). I think this is a 40+% discount to fair value (c. $20+/share). However, given the sensitivity of the board (and myself) to the annualized return on investment, I would not be surprised that the price PICO Holdings is sold at is lower than $20/share. Value per share of PICO Holdings is not compounding at a double digit rate. With liquidations, timing matters. Management indicated that the exploration of strategic alternatives, if successful, should be completed within about three months from today. Alternatively, if the strategic alternative process yields no results, the management expects to sell water rights one by one over the next two years, as demand from individual developers comes to the market.

PICO Holdings is an 8% position.

Culibrk Partnership
Largest Gains and Losses
For the Three Months ended December 31st 2017
(% contribution to the portfolio)

| Largest Gains | Largest Losses |
|---|---|
| Idorsia (+2.06%) | Liberty Global LiLAC (-0.7%) |
| PICO Holdings (+1.66%) | MEI Pharma (-0.62%) |
| Cimpress (+1.51%) | Liberty Ven./Broadband (-0.45%) |
| Discovery (+1.07%) | Sports Direct (-0.34%) |
| Aimia (+0.84%) | Seritage Growth Prop. (-0.18%) |

Idorsia

Please see commentary above under "Largest Gains and Losses for the Twelve Months".

PICO Holdings

Please see commentary above under "Largest Gains and Losses for the Twelve Months".

Cimpress

We acquired shares of Cimpress at $89.6/share in the second half of 2016. This quarter is the first significant contribution to the portfolio and the opportunity to explain the business in more depth.

Cimpress is in the printing business, but with an interesting twist. It is offering small orders of individually customized products at an attractive price to customers via its portfolio of websites. Orders are collected online, grouped and routed to be fulfilled by an automated manufacturing platform. From its beginnings in business cards, Cimpress has branched out into other mass customized products such as brochures, trade displays, packaging, etc.

As Cimpress adds more products to their offering, the value proposition grows and cost decreases. As users shift online, Cimpress becomes a more convenient option. I expect it to take market share from mom & pop printers who currently control a significant portion of the industry.

Since 2012, Cimpress embarked on an aggressive marketing spending spree, followed by a large investment into software and its organization. Cimpress is widening its competitive advantage. As a business whose investments are passed through income statement (rather than the cash flow statement), Cimpress earnings have been reduced. I think that the investments, although not recorded on the balance sheet, will certainly produce cash flow in the future. Simple stop to the spending would multiply Cimpress free cash flow.

People are a strong point at Cimpress. Robert Keane is the founder and a significant shareholder with many decades ahead of him to grow Cimpress intrinsic value per share. He is backed by a strong board with Scott Vassalluzzo from Prescott General Partners (PGP owns 15% of the shares outstanding, which account 24% of their US public equity portfolio as of Q3 2017). I think Keane is learning about capital allocation from Prescott and has done the right things with buybacks and acquisitions so far.

I expect Cimpress to compound intrinsic value at 15%+. It is trading at $120/share, at 12x price to normalized free cash flow, which likely understates benefits of the investments.