To: Culibrk Partnership Partners
From: Stefan Culibrk
Date: October 16th, 2018

Dear Partners,

The Partnership recorded a gain of 8.7% during 1.7.2018. – 30.9.2018.

	Return	S&P 500[1]
Quarter	8.7%	7.7%
2018	12.0%	10.6%
Since inception (Jan 2015)	135.7%	52.9%

I think that a manager concerned with superior long-term returns cannot have a neatly defined investment style. When I see words like "growth", "value", "conservative", "developed markets", "small cap" or "tech", I hope they are only for marketing purposes.

Unfortunately, what comes with such marketing is commitment and consistency bias. Presenting oneself as a patron of a specific "style" of investing will necessarily bring investors attracted to such "style". Will a manager that presented himself as "growth" change to "value" when businesses with positive free cash flows start trading at far below liquidation value? Not if his livelihood depends on remaining a "growth" investor.

Articulating style limits the opportunity set. Such a constraint is an unlikely path to superior long-term returns. Investing is hard enough.

Investing at Culibrk Partnership depends mostly on these four questions:

1) How certain am I that I can properly asses intrinsic value of the business today and its value in ten years?

2) Is the difference between the market price and my assessment of value large enough to compensate for risks taken?

3) What will be the outcome if I'm wrong?

4) What are our alternatives?

Does this mean I would invest in any business, as long as it is publicly listed? Technically, yes. Practically, of course not. Vast majority of industries and geographies are quickly disqualified on at least two of the above questions.

To demonstrate this approach at work, we can revisit our thesis on Idorsia, a biotech company. It proved to be one of five biggest portfolio contributors since 2015. I didn't fool myself that I have superior knowledge about the business. We invested because the answer on question 3 was "near zero".

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

New investment

Isentia

We invested 8% our portfolio in Isentia, a media monitoring and analysis business in Australia & New Zealand, with a presence in Southeast Asia and China.

Media monitoring is a mission critical service for businesses, governments and non-profits. It provides timely collection of print, radio, television and online content that mentions a specific topic, person or the company itself. Why is this service mission critical? Coke immediately wants to know when it is mentioned in relation to obesity, no matter where such content is published. Nike wants to know the impact its new campaign is having on its iconic brand. A cancer awareness initiative wants to know how far is their message traveling. Breadth, accuracy and immediacy of the coverage are keys to a successful product in media monitoring.

Media monitoring market has historically been serviced by national providers. National providers would assemble teams to manually transcribe radio and television content, arrange copyright deals with local media houses and build client relationships. In the past two decades the industry became more technology-driven. Online and social came into existence and rapidly grew in importance. Scale became a more relevant factor as technology is largely a fixed cost. Global offering, somewhat similar to a practice common in accounting and marketing, became a more viable proposition as companies expand their footprint. Three global media monitoring companies stand out. Cision is a Chicago-based company formed by a private equity firm GTCR in 2014. Cision went public in 2017. Since 2014, Cision acquired several mid-sized players and is now by far the largest business in the industry globally, with 75k clients and $632m in revenue in 2017. Meltwater is a founder-led and venture capital-backed business that has been growing mostly organically since 2001. It is about a third the size of Cision with 23k clients. Kantar Media, owned by the advertising giant WPP, is dominant in EMEA with about $200m in revenue. In 2017, global media intelligence industry had $3.5bn in revenue, +9% vs. 2016, with about a third from media monitoring.

Annual contract values range from a few thousand dollars for a small, undemanding business to multi-million fees for large enterprises with global coverage and custom functionality. Customers are reasonably sticky with annual churn in the single digits. Free cash flow conversion is high with annual subscriptions sometimes leading to negative working capital. Incremental margins are high. Contracts have historically been priced based on volume of coverage. This is changing as traditional media content declines and social/online becomes more relevant. Small business clients are price driven and barriers to entry are low. As soon as the business is large enough that a PR professional chooses its media monitoring service (rather than the actual business owner), stickiness increases as the professional sees it as mission-critical tool, while the business owner sees a cost center. Customers increasingly want a single solution to as many media intelligence needs as possible. The answer from the industry was a flurry of M&A deals to boost breadth and depth of their offering.

Isentia has dominated Australian and New Zealand media monitoring for the past 25 years. Today it commands about a 70-80% market share in media monitoring. When we acquired shares of Isentia in September they were down more than 80% in a year and almost 95% since their peak less than three years ago. In the four years since it has gone public, the business has been severely mismanaged. Previous management (CEO left in February 2018) managed it as a monopoly. Prices were regularly raised by 5%, spending was loose, capital was poorly allocated and the core product over time became subpar. For a vast majority of the CEO's 20-year tenure, this strategy could pass as Isentia's local scale in analogue times made its moat unassailable.

During 2014 - 2017, Isentia focused on pursuing growth in Asia and in non-core verticals such as content marketing. It acquired and a few years later completely wrote down an investment in King Content worth AUD 48m (equal to 3/4 of today's market cap). Ignoring core business with high margins in the face of technological disruption and competition is a recipe for a disaster. Isentia's management also ignored the growing importance of online and social media monitoring.

Meltwater, which has been present in Australia since 2006, quietly addressed customer complaints about limited coverage by expanding its traditional media coverage by signing a contract with Copyright Agency Limited. This contract allowed Meltwater to access (and deliver to its clients) content that has been behind paywalls of Fairfax Media, News Corp and other publishers. Meltwater also leveraged TVEyes relationship to enhance radio and television monitoring. Meltwater also benefited from an increasing relevance of online media, its area of expertise. It currently has a 15-20% market share.

Management missteps didn't stop there. Isentia revenue and cost was structured to be leveraged to volume in traditional media. If traditional media volume positively surprised, Isentia would collect higher revenues and pay almost no incremental copyright costs. If the volume surprised to the downside, Isentia's revenues would tumble and costs would remain unchanged. This proved to be a costly decision, one Isentia is trying to reverse with an appeal to the Copyright Tribunal over copyright prices. The contract Isentia signed with Copyright Agency Limited expired on June 30th 2018. Isentia wants the same deal structure as Meltwater. Copyright Agency Limited, which represents the publishing houses, is happy to stick to the previous arrangement. Reasonable resolution would be to align Isentia to Meltwater, significantly reducing the copyright cost, a cash saving of about AUD 4-6m per year. Interim Tribunal ruling is expected shortly. It will address the nature of the commercial relationship until the final ruling is issued (likely two years from today).

Despite the negligence of its core business, Isentia's gross churn (measured as a % of revenue) in the past twelve months has been 5%. This resilience is partly due to reduced pricing, but more importantly, due to stickiness of their larger clients. Smaller accounts churn in low double digits. Isentia's competitive advantage is still relevant: broader coverage and client relationships. Price differential versus Meltwater is down to single digits for enterprise customers (versus 20-30% a few years ago) and still in 20-30% for smaller businesses. Combination of pricing pressure and lost customers led to a AUD 19m decline (-12%) in Isentia's revenue between fiscal year 2016 and 2018 and a AUD 16m decline in EBITDA (-32%). Meltwater has about 1,800 clients in Australia and about 25% of those came from Isentia's low-end customer offering. The higher-end ones that leave Isentia usually come back, frequently with a request for reduced pricing.

I think that the management is taking the right steps to put the business back on the course. New CEO, Ed Harrison, former CEO of Yahoo7, joined in July 2018. His experience in digital and sales will help. Board got a much needed refresh with Travyn Rhall (ex-global CEO of Kantar Insights) and Justin Kane/Jeffrey Strong (founders of Gilead Capital, an activist fund that owns 15% of Isentia). Doug Snedden came in as chairman in November 2017. James Orlando arrived as CFO in July 2017, only to resign in July 2018 as the company hired a new CEO. He is still at the company while the board looks for his replacement. After management reshuffle, key priority is increasing product relevance, improving its speed and online capabilities. Restructuring of sales and account management teams is much needed. They were badly damaged during the King Content debacle. Sales representatives were forced to sell a product that no client wanted. The product required a different sales cycle (campaign driven rather than recurring). Majority of the sales team left as the experience was demoralizing for staff.

Management identified several areas where technology can save costs such as press reading automation, which are projected to save almost AUD 7m by FY 2019. This excludes potential savings from copyright costs.

Mr. Market and several passive shareholders lost patience with Isentia on 23rd of August 2018 when management issued guidance for FY 2019. The stock is down 60% since. I would not be surprised that new management issued 2019 guidance on the conservative side, in part to reverse a horrible overpromise and under-deliver practice of the prior management. Low-end of the guidance assumes revenue decline of 12% and EBITDA decline of 40%.

Net debt stands at AUD 44m and should be reduced to AUD 29m by FY 2019. On the lowest point of the guidance, Isentia trades at 4.7x EV/EBITDA and 4.3x P/FCF.

At the top of the guidance range and assuming a favorable copyright resolution, Isentia is trading at 2.5x EV/EBITDA and 2.5x P/FCF. I think Isentia's problems are solvable and a re-rating to more normal multiples and back to stability should make the shares worth multiples of the current price.

Isentia investment becomes even more interesting when we look at it as a strategic acquisition target. Cision and Kantar have no exposure to Australia/New Zealand and have little exposure to Asia. Isentia as a whole is trading at less than 1x sales. I would argue there is no more efficient customer acquisition strategy for Cision, Kantar or even Meltwater (if Australian Competition and Consumer Commission allows) than acquiring Isentia. Removing duplicative costs and public company costs would boost free cash flow between 50% and almost 100%, if copyright costs are changed. With Cision trading at 24x P/LTM FCF, 28x EV/LTM CFO and 13x EV/LTM adj. EBITDA, Isentia is an accretive acquisition from day 1 at a price much higher than the current one.

An alternative scenario could be a sale of its Asia unit to a strategic buyer. At AUD 34.9m in sales in 2017 and growing 5-10% per year, Asian unit could command a 2x sales multiple (c. industry average in the past five years). The unit is profitable and could be easily added to a strategic acquirer's technological platform. Selling Asian business for 2x sales, would leave Isentia's Australia and New Zealand business trading at an EV of AUD 22m and a net cash position of AUD 41m. The remaining business would still be making more than AUD 15m in 2019 EBITDA at the lowest point of the guidance range. A sale of Asian assets, good capital allocation of the proceeds and an improvement in the core ANZ business could make the stock worth multiples of the current share price.

Risks to the thesis include renewed intense competition with more high-margin revenue lost. If Meltwater is bent on winning share, it can use its profits from abroad to subsidize its Australian business. Money-losing, low cost competitor is a recipe for disaster. This seems unlikely. In the past six months, Isentia kept winning a large number of government contracts (government contracts are publicly available and should represent a fair assessment of market dynamics). An economic slowdown in Australia is a bigger risk as it might lead a significant minority of clients to consider switching for a lower priced offering, choosing Meltwater.

Range of outcomes in our Isentia investment is wider than what is usual for Culibrk Partnership investments. I think that a vast majority of the possible outcomes would result in an attractive return. I think there is a reasonable chance that a realization of the negative scenario would result in an offer to acquire the company by a strategic acquirer at close to reproduction cost (including customer acquisition cost). I believe price that the we paid for the shares is lower than Isentia's reproduction cost.

Sizing changes

We increased our stake in Interactive Brokers. I think we bought at close to fair value (and a 30% discount from the highs of 2018). The business keeps compounding intrinsic value at c. 20% per year by growing number of clients that are trading, clearing and doing custody. I expect its competitive advantage of unparalleled value proposition only to expand in the years to come. On the other hand, its exposure to the business cycle is the highest of the companies we own. Although I have no doubt it will emerge out of the next recession stronger than ever, I expect its share price will be hurt badly in any downturn. This limits our sizing to 5% of the portfolio.

We added to our position in Aimia. Competent, newly-hired CEO and the announcement of initial offer for Aeroplan by the consortium led by Air Canada, substantially improved risk/reward of Aimia's shares.

We kept selling shares of Discovery, as the price reached closer to my conservative estimate of fair value.

We narrowed the focus of the portfolio by selling our entire stakes in MEI Pharma, LGL Group, PICO Holdings and Seritage Growth Properties. None of these businesses is rapidly creating new value. Narrowing of the discount to intrinsic value was the key driver of investment returns. Risk/reward of all of the above mentioned four investments has shifted since we made our purchase, as prices reached closer to fair value.

As of September 30th 2018, cash was 11% of our portfolio.

Culibrk Partnership
Largest Gains and Losses
For the Three Months ended September 30th 2018
(% contribution to the portfolio)

Largest Gains	Largest Losses
GCI, Liberty Broadband (+3.3%)	Interactive Brokers (-0.5%)
Aimia (+2.0%)	Cimpress (-0.4%)
Discovery (+0.9%)	Idorsia (-0.2%)

GCI, Liberty Broadband

Charter remains substantially undervalued and our largest position in the portfolio. I expect the shares of GCI Liberty and Liberty Broadband, vehicles we invested in to gain exposure to Charter, to compound at 20% for the next three to five years. Majority of the returns will be driven by an increase in free cash flow per share at Charter, as capex needs decline and share count shrinks.

Collapsing of the GCI Liberty -> Liberty Broadband -> Charter structure could be announced as soon as this November at Liberty Investor Day. Closing of the double discount on GCI Liberty will lead to a 20+% appreciation.

Aimia

We've been investors in Aimia for less than a year, but what a year it has been. Aimia shares increased from CAD 2.5 to CAD 4 within three months of our purchase. This rise was followed by a decline of more than 60% within two months, triggered by the Nectar sale debacle. Since the lows of CAD 1.5/share in March, Aimia shares appreciated more than 200% to close at CAD 4.53 on September 28th. Since we invested, Aimia has remained a small position and contributed 1.4% to our overall returns.

Air Canada was Aeroplan's long-term partner that decided to terminate the partnership from 2020, causing Aimia's price to drop 80% in 2017. Air Canada formed a consortium with other Aeroplan customers Visa, TD and CIBC with a goal to acquire Aeroplan. Consortium first offer on 25th of July 2018 was insufficient and quickly rejected by Aimia's board. We acquired more Aimia shares during the period between this offer and the subsequent, improved offer, that was accepted on 21st of August 2018. Aimia will receive CAD 450m cash for its Aeroplan asset. Main components of net asset value of Aimia after the Aeroplan sale will be its 49% stake in PLM, Aeromexico's lucrative loyalty program, a stake in publicly-listed Cardlytics and cash. I estimate that Aimia is trading at a 30-40% discount to its assets.

On August 27th, Aimia hired Nathaniel Felsher, Deutsche Bank's global head of aviation investment banking, as President and chief strategy officer. He will join Jeremy Rabe, newly appointed CEO. Mr. Rabe has demonstrated determination in his first four months on the job by unlocking tremendous value for shareholders. We hope to hear more about Jeremy's and Nathaniel's capital allocation strategy going forward on Q3 earnings call in November.

Discovery

The only thing that changed about Discovery in the past twelve months is investor sentiment. Sling TV and Hulu included Discovery channels during September. This is good news for subscriber count. For those of us that care about free cash flow, this change is not a dramatic positive. Free cash flow per over the top subscriber is significantly lower than free cash flow per cable video subscriber. On the upside, there is some free cash flow after all, as the user might switch from a cable bundle to Hulu/Sling, regardless of whether Discovery is offered.

The market loved this announcement, driving Discovery shares 17% higher during September.

I think US advertising and affiliate revenues will remain under pressure by the declining subscribers and pressure on advertising pricing. At c. $20/share, Discovery shares were an attractive risk/reward proposition. At $30/share, low-hanging returns have been harvested, and shares are trading at a slight discount to slowly (if at all) growing intrinsic value.