



## **PMP - Value + Patience = Profit**

I started buying PMP shares in January 2013 at 15c a share...by luck it was the point of maximum pessimism...today they hit 56c...and the journey has been a great lesson in value investing that I thought was worth revisiting.

When I started buying the stock it was a period of full capitulation, the last of the institutional shareholders had finally given up on the company and the sector. No doubt printing catalogues was and remains, a tough business with shrinking revenues and margins due, at least partly, to excess industry capacity. PMP had been poorly managed with CEO after CEO trying to generate growth where there was none. It's a reminder that **a board and management team should be able to concede that a company is ex growth and its best strategy is to maximise cash** and give it back to shareholders but PMP seemed incapable (until recently) to accept that reality.

Then finally, after a near death experience and a share price slump of over 90%, a new CEO was appointed who had a clear strategy and the skills to execute. Peter George set about saving PMP and maximizing value from the assets available to him. He cut costs to maximise cash, sold hard assets and paid down debt with the initial purpose of saving the company and then channeling excess cash back to shareholders. He has done a great job. **Sometimes, extraordinary growth is not the only measure of a very competent CEO.**

So let's go back in time and examine why I started to buy the stock:

- 1) The stock was very cheap based on expected free cash flow. (Circa 2x)
- 2) Management articulated a clear and sensible strategy and had the track record in the NZ division to show that it could be done.
- 3) Market sentiment was so bad that it couldn't get much worse (no guarantee that the company would survive of course).
- 4) Industry trend was negative but on further investigation, I could not see catalogues disappearing in the short term. Companies that used catalogues to communicate with consumers told me that catalogues generated the best return of any marketing dollar spent. The stock appeared to be priced on the basis that it was going out of business in the short term and I felt that was unlikely.

Fast forward a couple of very tough years and a lot of hard work by management and we have a stock that is still cheap, has almost no debt and is about to pay its first dividend in 4 years. The journey however for investors has tested our patience at times. There are a few clear reminders that have come out that I think are worth discussing and reminding ourselves of.

Early this year, I picked PMP as my star stock for 2015. I expected the stock to grind higher (from a starting price of 42c) as it got closer to being net debt free and paying its first div. However until a couple of days ago, I was wrong, at the end of May the stock was still trading around 43c. It wasn't until the company finally released an announcement confirming a dividend payment and much improved debt position, that the stock finally popped and moved about 20% in a couple of days. A reminder that often in small caps 90% of performance is derived in a window of about 10% of the time. **It's not uncommon when investing in small caps to get one's annual returns in a week.**

While this stock has been volatile and indeed provided quite a few trading opportunities, ultimately it has been a classic deep value play. We bought a well-run business in a turnaround situation in a very challenging industry BUT we bought it cheap during a period of dire pessimism and it worked out.

I would like to make one final cautionary point about this experience while it has (so far) been a good investment; it's worth reflecting on the fact that the future is never totally predictable. **The outcome of investing in any stock is never certain... ever!** What I try to do is skew the odds in my favor so that the net result is we make more money than we lose.

| In other words invest when I believe I have an edge, as Warren likes to put it... "wait for the fat pitch".

**If there has ever been a great example of why we must be patient and shun the enormous pressure and temptation to focus on the short term...it's this PMP investment!** From my initial 15c investment the trade has returned 266% in less than 3 years. Value+Patience=Profits

**Good investing,**

**Nigel Littlewood**

**(12<sup>th</sup> May 2015)**

Note: Nigel Littlewood and the Harness Asset Management Small Companies Value Fund own shares in PMP.

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