

Old West Investment Management, LLC

April 14, 2017

Dear Investor,

The first quarter of 2017 was a good one for the stock market. Investors continue to pour money into passively managed index funds, lifting the momentum stocks to all-time highs. As you can see in your enclosed statement, we had a good first quarter, especially when you consider we refuse to drink the Kool-Aid by investing in ridiculously valued momentum stocks.

What am I referring to as ridiculously valued momentum stocks? Let's take Tesla for example. Last week Tesla's market valuation exceeds \$48 billion. This values Tesla's shares more than Ford (\$45 billion) as Tesla sells 80,000 cars per year versus 6.5 million cars for Ford. Ford has made an average of \$6B of profit every year for seven straight years, while Tesla bleeds red ink, and they will not become profitable as far as the eye can see.

Then there is Salesforce.com, who is currently putting the finishing touches on the new skyscraper HQ in downtown San Francisco, which might signify a market top. The company is valued at \$60 billion, has lost money for five consecutive years and is growing mainly through acquisitions. This is starting to sound an awful lot like 1999/2000 all over again.

The market rally since President Trump was elected has been truly impressive. However, it's possible the honeymoon may be ending, as his own party couldn't come together to replace Obamacare. It is now looking like a tax bill is problematic also due to Republican infighting. I don't think the President is used to this political bickering and confusion, as he is a hard charging businessman who usually gets his way. I'm not sure how patient the market will remain as the drama plays out.

I have stated in the past that unusually high levels of debt are the biggest threat to future growth. Every country, every state, every county and even every town and city have too much debt. Companies have also taken on huge amounts of debt, and mostly to buy back their own stock usually at high prices. Microsoft, a stock we sold with a nice profit last year, had \$12B in long term debt five years ago, and has \$60B today. There's a saying that it's easy to borrow money but hard to pay it back. The U.S. government has \$20 trillion (The T word) in debt not to mention \$100T in entitlement commitments. Young people are trying to pay off \$1.3T in student debt, Americans have \$1.2T in auto loans, and investors have over \$500B in margin debt. All of these debt levels are at all-time highs.

I have thought this stock market rally is "long in the tooth" (I wonder where that saying came from) for over a year. This bull market began in March 2009. So it's eight years and counting, making it one of the longest bull markets in history. Are things really this good? This might beg the question, if we are this cautious, how can we find companies to invest in? Take a look at your portfolio. We own a variety of great companies with tremendous value, run by owner/managers who are heavily

invested in their companies. We are constantly vetting our holdings and I promise you, when the music stops, the companies we own will do just fine. You'll be very happy we don't own Tesla, Salesforce, Facebook, Snapchat, Google or Netflix.

In each quarterly letter we write about one or more of our holdings, and this quarter we have chosen one company, Liberty Media - Formula One.

LIBERTY MEDIA - FORMULA ONE

When I was a teenager my friend John Pavich and I went to see the movie Grand Prix. It was showing at the Cinerama Dome in Hollywood, where the theater was circular and the screen wrapped around half the theater. In watching Grand Prix as a teenager, I learned that car racing in Europe was a hot sport. Fast cars and beautiful women. In the U.S., NASCAR is far more popular but that might change.

At Old West, we love investing alongside great owner/managers. The very top of that list is the legendary Dr. John Malone. Malone made his first fortune in the cable TV business, and was a true pioneer of cable TV. In fact, a book was written about him called "Cable Cowboy". Malone ran the cable company TCI for fifteen years, and in 1991 he spun off certain assets to form Liberty Media. AT&T subsequently bought TCI for \$32B. In addition to Dr. Malone, his protégé Greg Maffei serves as President and Chief Executive Officer. Maffei is involved in all of Malone's enterprises and has developed a reputation as a tireless worker and skilled operator. Over the years many companies have been spun off from Liberty Media, including Liberty Interactive, Liberty Ventures, Liberty Global, Starz, Discovery, Expedia, TripAdvisor and more.

More recently, Liberty Media's assets consisted of controlling ownership stakes in SiriusXM Radio, Live Nation and the Atlanta Braves. Last year Malone engineered the purchase of Formula One Racing and changed the company name to Liberty Media-Formula One Inc., and the stock symbol to FWON. The purchase price was \$4.4B plus the assumption of \$4.1B in debt. Let's put in perspective what Formula One might eventually be worth. A few years ago Microsoft CEO Steve Ballmer paid \$2B for the LA Clippers basketball team. I would argue Formula One is more valuable than the entire NBA, let alone a single franchise. Formula One Grand Prix racing is huge throughout Europe, Asia, South America and the Middle East. We only have one Grand Prix race in the US, in Austin, TX but I expect that to change.

Formula One has been run by 87 year old Bernie Ecclestone for years, and it's safe to say he has mismanaged and held back the organization for a long time. Major league baseball has 60 people in their marketing department and Formula One has had one. The possibilities are endless.

Chase Carey is the new CEO of Formula One. Carey was born in Ireland, educated at Harvard, and became CEO of DirecTV. John Malone was DirecTV's largest shareholder and Old West was a DirecTV shareholder until the company was purchased by AT&T. Carey did a superb job running DirecTV and was recruited by Rupert Murdoch to run Fox. Once Murdoch's two sons took over the reins at Fox, Carey was moved aside. Now he is reunited with Malone at Formula One. I predict he will do a great job running the company.

Formula One has had 19 Grand Prix races per year, and 21 are scheduled for this season. Last year the company had \$1.7B in revenue and \$456M in free cash flow. Revenue sources are race promotions (35%), broadcasting (32%), sponsorships (14%) and 18% of other revenue including merchandising and licensing. We believe all of these revenue sources have not come close to their potential. The Grand Prix circuit is also a bit of a “good old boys” club, with race teams dominated by Mercedes Benz, Ferrari and Red Bull. What about BMW, Audi, Ford, GM, Toyota and more? We believe new CEO Carey will break the mold and create new opportunities for sponsors, team owners and the media. Just as the NFL, NBA and MBL games are increasingly being viewed digitally, expect the same for F1.

Currently races are held in Australia, Germany, Russia, Bahrain, China, Spain, Monaco, Canada, Azerbaijan, U.K., Belgium, U.S., Singapore, Japan, Malaysia, Mexico and Abu Dhabi. Not only can many more races be added, but they can also have Formula Two and Formula Three races in smaller venues, similar to minor league baseball. As I mentioned earlier, the possibilities are endless. It will be fun watching the story unfold over the next several years. I believe we will own Liberty Media-Formula One for many years.

We appreciate your loyalty and support, and we are excited to watch our investments prosper the rest of the year and beyond.

Sincerely,



Joseph M. Boskovich, Sr.
Chairman and Chief Investment Officer