

Old West Investment Management, LLC

October 14, 2016

Dear Investor,

It seems hard to believe that we are headed into the home stretch of 2016. This year is flying by! A lot can happen in the fourth quarter, especially with all the attention being paid to the election (rightfully so) and to Fed monetary policy. As you can see in your enclosed statement, we are having an exceptionally strong year. The S&P 500 is up 7.8% year to date through September 30, and our portfolios far exceed that amount.

During the third quarter the S&P 500 spent more than two months trading in a range of plus or minus 1% of its all time high. This is only the fifth time since 1928 that the index has spent that long in such close proximity to its all time high. What does this mean? The Federal Reserve Bank Board has been actively focused on keeping the stock market pumped up, which is clearly not their mandate. At Old West we are invested very defensively, with no expectation that the Fed will be able to continue priming the pump indefinitely.

The biggest issue facing the markets going forward is anemic worldwide growth. I believe growth here and abroad is being stifled by excessive debt. Global debt is at an all time high of over \$150 trillion, which is 225 % of global GDP. This debt figure includes households, companies and governments, and it excludes banks and other financial institutions. You would hope this debt total would have come down following the 2007-2008 recession, but it has actually exploded higher. This huge amount of worldwide debt is retarding growth at every level. Central banks have been successful at keeping interest rates low, but all of this debt may cause a gravitational pull that may be unstoppable, and rates could begin to rise.

One of my favorite economists is Jim Grant, author of the well known newsletter “The Interest Rate Observer”, which I have read religiously for twenty years. In his recent letter Grant discusses interest rate cycles, and how they tend to be long cycles of twenty to forty years. This October marks the 35th anniversary of the current bond bull market. In October of 1981 interest rates peaked, and you could have bought a 30 year US Treasury bond yielding 15%. Imagine that! Grant has speculated that rates may have bottomed recently, as has newly crowned “bond king” Jeffrey Gundlach.

I have no idea when interest rates will rise, but everything cycles, and at some point they certainly will. We are constantly monitoring our holdings and looking for new opportunities, with all the aforementioned information in mind. On a macro scale, I’m worried about the lack of economic growth, and the market seems fully valued or overvalued. However, our investment process keeps us in the names we own, and we continue to find new opportunities that have little or no correlation

to the overall market. One such idea is IDW Media, a company discovered by Old West co-founder Joe Boskovich Jr. Joe writes the following:

IDW Media is one of our newer investments, and we are very excited about the company's future. As you know, a primary tenet of Old West's investment process is that we seek to invest your capital in owner-operator led companies. This means that we want to invest in companies where management teams are among the largest shareholders and are incentivized more from their stock ownership than from their compensation. This is absolutely the case with IDW Media as its Chairman, Howard Jonas, CEO, Ted Adams, and the rest of company management own over 60% of the shares outstanding.

As with all of our investments, once we have determined that management incentives are aligned with ours, we spend a lot of time studying their historical actions, capital allocation decisions and track records. IDW's Chairman, Howard Jonas, is a life-long entrepreneur, and a very successful one at that. In 1990 Jonas founded IDT Corporation, which is today one of the world's largest telecom providers offering service to customers in over 225 countries. Over the past 25 years Jonas has mastered the art of capital allocation, transforming IDT into a diversified media and telecom conglomerate. He has opportunistically grown IDT organically and through acquisition, and when appropriate, he has monetized various unrelated business assets through sales and spinoffs.

Below are just a few of Jonas' more notable capital allocation decisions that have resulted in value creation for him and his shareholders;

- In August 2000, at the peak of the telecom boom, IDT sold a stake in its Net2Phone subsidiary, which provided cheap long distance service through the internet, to AT&T for approximately \$1.1 billion in cash. One year later, in October 2001, IDT bought back its stake for just \$92 million.
- In 2001, realizing that the telecommunications industry was highly commoditized, Jonas made his first foray into the media business. IDT made several small acquisitions such as POW! Entertainment with the goal of controlling content and formed a new company called IDT Entertainment. In May 2006, IDT Entertainment was sold to John Malone's Liberty Media for roughly \$500 million, merging its animation and live action production business with Liberty Media's controlled Starz Entertainment Group.
- In November 2004, IDT launched its retail energy business, IDT Energy. IDT energy grew into one of the largest independent suppliers of electricity and natural gas to those who live in the Eastern United States. On October 31, 2011, IDT spun off its energy related businesses to its shareholders as Genie Energy, which today trades on the NYSE with a \$160 Million market cap.

As you can see, Howard Jonas has an amazing track record of success, and has time and time again made value creative decisions for IDT shareholders. His actions clearly warrant close attention.

Another value added corporate action occurred on September 14, 2009, when IDT Corporation spun off IDW Media (IDWM) to its shareholders. We first learned of IDW Media earlier this year, and after several months of studying the company, we have built a significant position across many of our portfolios.

IDW Media is made up of two core business segments, CTM Media Group and IDW Publishing. The first segment, CTM Media, is primarily involved in the travel brochure and publishing business. CTM distributes over 100 million brochures, visitor guides and publications annually and their digital platform recorded 19.3 million digital engagements last year. The company has over 14,000 distribution points throughout the eastern half of the United States and Canada. CTM Media does roughly \$20 million in revenue per year and has 10% operating margins. It is a steady and predictable business that is growing about 8% per year.

The second business, IDW Publishing, is the fourth largest comic book publisher in the United States, publishing over 500 unique comic book titles and 250 graphic novels in 2015. The company, which was founded in 1999 by the talented Ted Adams, was majority purchased in 2007 by IDT Corporation. IDW Publishing makes two types of comic books. The first type is licensed titles, where they take other people's entertainment properties and turn them into comics. In their licensing business, IDW is the premier publisher for licensed comic books in the United States, so they are in the fortunate position where they typically decide which properties they wish to license. Some of their more successful and popular titles include: Hasbro's Transformers and G.I. Joe, Nickelodeon's Teenage Mutant Ninja Turtles; Sony's Ghostbusters, Marvel's Superhero's, and various Disney titles such as Mickey Mouse. The second type of comic that they make are creator owned comics, where they introduce new comics to the world and own or co-own these properties with the creators. IDW owns more than 150 pieces of original Intellectual Property, and are also opportunistically acquiring new content through acquisition of whole companies and successful partnerships with creators. Their licensed comics division is a good business, and the creator owned comics division has the potential to be an excellent business, as we will discuss shortly. IDW Publishing does about \$30 million in revenue with 15% operating margins, and is growing around 15% per year.

In 2013, having built an attractive cash flowing business, Howard Jonas and IDW Media CEO Ted Adams, decided to invest several million dollars of the company's profits to launch a television production studio called IDW Entertainment with the goal of leveraging the company's library of Intellectual Property and securing straight-to-series television commitments. We believe that this strategy of leveraging IDW's creator owned properties and IP into financing and producing television shows has the potential for big returns with little downside risk. IDW's television production efforts off to a very promising start, having already sold the U.S rights and certain of the international rights for its first three television series.

1. In June 2015, IDW announced that it had presold the U.S. rights for *Wynonna Earp*, a western science fiction series, to the SyFy network. The show, which aired from April – July 2016, built a loyal fan base and was voted by E! News as the best new series for 2016. The Season 1 international rights were recently picked up by the Viacom, and will air on Spike TV in the UK, Australia, New Zealand, the Netherlands, Belgium, the Middle East, and Africa. Finally, at San Diego Comic Con this past July, the cast announced that the SyFy network had renewed *Wynonna Earp* for a Season 2.
2. In January of this year, it was announced that IDW Entertainment had pre-sold the rights to its 2nd series, *Dirk Gently Holistic Detective Agency*, to BBC America. The show started production in May, and is scheduled to air on October 22, 2016. The television series is being written by one of the most popular screenwriters in Hollywood, Max Landis, and co-stars the popular Elijah Wood. The company recently announced that they sold the rights for the entire world outside of the United States to Netflix. IDW Media, BBC America and Netflix have all indicated that *Dirk* has the potential to be a hit series, and may very well be a multi-season project. We encourage you to watch the trailer on YouTube!
3. Lastly, IDW Entertainment has sold the U.S television rights for its 3rd show, a police drama called *Brooklyn Animal Control*, to USA Network. USA and IDW are currently reworking and reshooting the pilot, and from all indications, the shows potential looks very promising.

In addition to these three already sold television projects, IDW has a substantial and promising pipeline of IP that may be turned into television shows, most notably *Locke & Key* and *March*. *Locke and Key* is the bestselling IP in IDW's history, having sold hundreds of thousands of issues. The pilot script was recently completed by its creator, Joe Hill (Stephen King's son), and management has indicated that there is significant interest from multiple networks. The *March* graphic novel trilogy is Congressman John Lewis' autobiography told in graphic novels about his role as a Civil Rights leader, and could easily be made into a mini-series on a network like the History Channel, etc. The books have been a huge success, and should have a significant impact on this quarter's financials. In fact, *March I, II and III* were ranked in the top three spots on the NY Times Best Sellers List for six consecutive weeks, and were in the #2, 3 and 4 spots on Amazon for a 48 hour period earlier this year. The company also expects to achieve success in movies and in its games division. For example, Stephen Spielberg's Amblin Entertainment has announced a movie starring Jim Carrey based on IDW's horror comic book title *Alistair Arcane*. Unlike with television, IDW is not participating in the financing and development of movies, but is rather simply licensing their IP to studios for a fee and a percentage of gross box office receipts. Although this limits IDW's upside in movies, given the high risk/high reward dynamic of the movie business, we feel that this is a smart and conservative decision by management at this early stage of the company's entertainment division.

The core thesis behind our investment in IDW Media centers around the company's attractive and growing library of IP, and the growing demand for original content in television. In just its first four months as a reportable segment, the television production segment has contributed an incremental \$7.5 million to IDW's top line growth, already accounting for 23% of total company revenues.

These results only partially reflect Season 1 of IDW's first show, and as we've explained, the company's television efforts are just getting started. We have bought the majority of our IDW Media shares at valuations that barely reflect any future success in the company's television production efforts, which we believe will be significant. The company has also announced plans to up list from the over-the-counter market to the NASDAQ in 2017, which will increase investor interest and liquidity. Longer term, an acquisition by a major media company such as Lionsgate is very possible, similar to when Howard Jonas sold his prior media company, IDT Entertainment, to John Malone and Liberty Media for \$500 million.

Like so many of our holdings, IDW Media is a unique idea with little or no correlation to the overall market. It's ideas like IDW that might do well regardless of the market environment. There is a consensus of opinion today that passive (index) investing is the way to go, as the fees are lower and performance just as good, if not better than active managers. Legendary investor Sir John Templeton had a great saying that I think is very appropriate in today's market environment. Sir John said, "if you have an illness, and you go to ten doctors for a diagnosis, and nine give you the same diagnosis with one telling you something different, I would listen to the nine that agree. If you seek financial advice, and you visit ten financial advisors, with nine giving you the same advice and one gives you a different opinion, I would go with the one that is different." I love this saying, and we at Old West take pride in being contrarian and free thinking.

Thank you for your continued loyalty and support.

Sincerely,



Joseph Boskovich, Sr.
Chairman and Chief Investment Officer