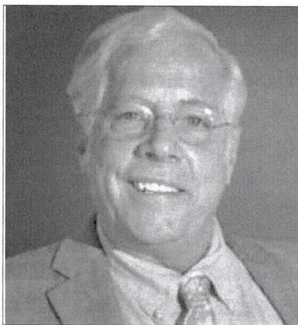
REPRINTED FROM JULY 3, 2017

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Using an Old-Fashioned Strategy with a Long-Term Focus



FLA LEWIS III is Principal of Weybosset Research & Management, LLC. Earlier, he worked for Kidder, Peabody & Co., where he was Assistant Vice President and Vice President. In January 1995, Mr. Lewis joined Compton Capital Management as Vice President and Senior Portfolio Manager. In August 2000, Weybosset Research & Management commenced operations as a continuation of Mr. Lewis' activities at Kidder, Peabody & Co. and Compton Capital Management. He graduated from Brown University and was awarded the Samuel T. Arnold Fellowship, Brown's highest honor for a graduating senior. After study in Vienna and London, Mr. Lewis went to Harvard University, receiving his Master of Arts in 1980.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Lewis: Yes, Weybosset Research & Management is a registered investment adviser. We've been open since August of the year 2000. We handle only the investments of individuals. We do no business with what are normally called institutional clients. All our clients have faces and mothers.

TWST: Is there a unique investment philosophy on how you invest?

Mr. Lewis: I would describe our approach as radically old-fashioned.

TWST: Would you explain that a little bit?

Mr. Lewis: We are long-term fundamental investors. We are out here to make money, good money, for our clients — not between now and a quarter from today, or a year or two years from today, but over long periods of time like years, decades. In some cases, we are on the second and third generations of our clients. So it turns out this money we are running will last for very long periods of time. That's where we try to keep our eyes, on the far horizon.

TWST: Do you think some investors have mistakenly moved away from some of the more traditional approaches to investing?

Mr. Lewis: I think there is no question about it. The popularity of hedge funds, until they turned out not to be too good or to be disappointing; the popularity of index funds after that; and of course, now the ETF craze, it seems that people are increasingly shortening their time horizon in a mistaken attempt, I believe, to try to have better control over what happens to their investments. In the process, they take their eyes off the far horizon, which is where we get our opportunities. In a sense, we arbitrage time.

TWST: And do you want to highlight a stock that you find interesting now?

Mr. Lewis: We had some great success recently with **Farmer Mac**, the **Federal Agricultural Mortgage Corporation** (NYSE:AGM). We paid around $36 a share, and it is trading around $66. That one worked out very well in less than a year.

TWST: Maybe we could talk a little bit about Farmer Mac and what investors should know about it.

Mr. Lewis: Well, **Farmer Mac** is to the agricultural sector what **Fannie Mae** (OTCMKTS:FNMA) and **Freddie Mac** (OTCMKTS:FMCC) were to the housing sector. That is to say, **Farmer Mac** was established in the late 1980s to provide liquidity for loans to farmers and ranchers in the same sense that **Freddie Mac** and **Fannie Mae** were set up to provide liquidity for the home mortgage market. Unlike **Freddie Mac** and **Fannie Mae**, **Farmer Mac** did not go down into virtual bankruptcy in 2008 and, in fact, has kind of led a very sleepy existence, not doing much of anything until new management took over a year or two ago.

They asked themselves the question, "Why not try to grow this business?" They have been at it, and they have done well. The story on **Farmer Mac** in 2016 was about the same as the story on **Fannie Mae** and **Freddie Mac** in the 1980s or the 1990s. Like **Freddie** and **Fannie**, **Farmer Mac** was established by the U.S. government and enjoys a connection to the U.S. Treasury. This in turn makes **Farmer Mac's** cost of funds so low that you can't really compete with them.

So they don't quite act like **Fannie Mae** and **Freddie Mac**, but they are pretty close to it. They guarantee obligations to institutions that lend to farmers. Because of **Farmer Mac's** low cost of funds, it is difficult to compete with them. Now they are growing the business and doing what they are out there to do but completely overlooked by the stock market.

This time a year ago, the stock was selling for 8 times earnings — pretty low in a market that's more like 17 or 18 times earnings. Everybody had written the farm sector off as hopeless. I think people were making an analogy with what happened in the 1980s when crop prices went down so far, and the result was bankruptcies across the agriculture sector, all over the place. Things got so bad Willie Nelson had to get out there and do some Farm Aid concerts and to attract attention to the farmers' plight.

Things have changed quite a bit since then; the farmer may not be getting as much for his corn and soybeans, but he is not going out of business either. But the whole agriculture sector was priced as if that were the case, and that's our opportunity. No relief in sight for the farmer in the summer of 2016, but it was bound to come someday; it was not a matter of if, just a matter of when.

And **Farmer Mac** paid a nice — and growing — dividend. So you got paid to sit there and wait. Management had committed to increasing the dividend by a decent amount per annum — paid to wait; very, very cheap stock; good long-term future. We got in, and we have been lucky enough to get paid pretty quickly for it. That doesn't always happen. Sometimes you have to wait a long time.

Highlights

Fla Lewis III discusses Weybosset Research & Management, LLC. The firm only handles the investments of individuals and not the investments of institutional clients. Mr. Lewis describes his strategy as radically old-fashioned. He is a fundamental investor who tries to keep his eyes on the far horizon. His goal is to make good money for his clients over years or decades. Mr. Lewis believes that while others are shortening their time horizon, his long-term focus provides him with opportunities. In addition, he sees advantages to investing with a boutique firm because there is far more agility and flexibility.

Companies discussed: Federal Agricultural Mortgage Corp. (NYSE:AGM); Federal National Mortgage Association (OTCMKTS:FNMA); Federal Home Loan Mortgage Corp. (OTCMKTS:FMCC); New York Times Co. (NYSE:NYT); Gannett Co. (NYSE:GCI); FMC Corp. (NYSE:FMC); DuPont Fabros Technology (NYSE:DFT); Dow Chemical Co. (NYSE:DOW); Monsanto Company (NYSE:MON); General Dynamics Corporation (NYSE:GD); Deere & Company (NYSE:DE); Keysight Technologies (NYSE:KEYS) and Agilent Technologies (NYSE:A).

"Things have changed quite a bit since then; the farmer may not be getting as much for his corn and soybeans, but he is not going out of business either. But the whole agriculture sector was priced as if that were the case, and that's our opportunity. No relief in sight for the farmer in the summer of 2016, but it was bound to come someday; it was not a matter of if, just a matter of when."

TWST: And does the outlook for Farmer Mac look pretty solid for the next couple of years?

Mr. Lewis: As far as I can see, it is a market-share story. Obviously, the market for mortgages on farm and rangeland is nothing like the size of the market for homes, but it is much bigger than **Farmer Mac** is now, leaving plenty of room to grow. They are managing the business responsibly. For instance, when it came to down payments on loans for **Freddie** and **Fannie**, 20% was the standard, but that got whittled away to 10% or less prior to the housing collapse. At **Farmer Mac**, the down payment is more like 50%. So you've got plenty of room between you and trouble.

I think the outlook is very good. See, the stock is pretty cheap right now — 12, 13 times earnings in an 18 or 19 times market. It's probably a good deal from here on, but it's just hard to pay $66 when you paid $36 not that long ago.

TWST: And do you want to mention a second company, perhaps The New York Times?

Mr. Lewis: Yes, that's a very interesting story, kind of like the agriculture sector. Nobody wants to get close to newspapers because they have been just unmitigated disasters. You talk to an analyst about a newspaper and a veteran analyst will say, "Every time I recommended one, I got killed, and so no more interest in newspapers, thank you. Once burned, twice warned."

But **The New York Times** (NYSE:NYT) is attempting a real change in their business, dramatic change, not to be the company that delivers newspapers to your door every day and a big fat one on Sunday — that continues but is declining and will continue to decline — but attempting to become a global news provider online through a subscription model. That's a tough road to hoe because it is extremely competitive out there and hard to make money, but **The New York Times** has a special name. There are very few national or even global newspapers with **The New York Times'** credibility. *The Wall Street Journal* comes to mind, *The Washington Post*, maybe the *Financial Times*, something like that, but it is a pretty short list of names. But in an era of fake news, people want to go someplace where they can rely on what they are reading.

The New York Times has made itself affordable. I think they are doing the job in such a way that the plan will work. At some point later this year and into next year, digital subscriptions should surpass print subscriptions, and if that business can continue to grow — that's the big if; it may or may not continue to grow — but if it works, you have an extremely attractive business model. The cost, for instance, of an incremental subscriber is very, very low. I mean, it is pretty close to zero — no production plants; you don't need much in the way of delivery or anything.

1-Year Daily Chart of Federal Agricultural Mortgage Corp.

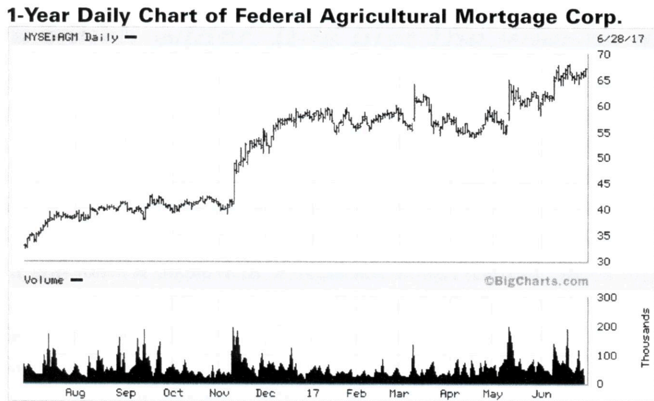


Chart provided by www.BigCharts.com

reporting breaking news, too, by the way.

TWST: And in that way, they reach the demographics that the advertisers want.

Mr. Lewis: Yes, interestingly enough, they get a very different crowd. If you think about your standard newspaper, all the local automobile dealers and lawyers, and that kind of thing, they need to advertise in it. But that's not the case with the digital **New York Times**. As you would expect, most of **The New York Times** paper subscriptions are in the Northeast, not so much for the digital subscriptions. They are growing quickly on the West Coast and Northwest, and growing abroad as well. So it is a different bunch of people, different kind of advertiser that you get there.

TWST: And if they are successful, do you think some of the other newspaper companies and news organizations might try and follow more what they are doing?

Mr. Lewis: Well, many have already tried it. It just doesn't work without the brand name. It is too competitive out there. I live in Providence, Rhode Island, and the subscription base of the *Providence Journal* shrunk, too. It is not zero, but it is on its way to 38,000 subscribers, down from hundreds of thousands when I first moved to Providence. They say we can go to the online *Providence Journal*, but there is just nothing to do there, really no particular reason to do it, but **The New York Times** is truly international. They have the credibility. That's the biggest thing; it's the brand name that works.

"So yes, they are going to get their subscribers, but if they keep this kind of growth up and hold on to subscribers they have, this new business model comes into play. The result should be very romantic on the bottom line."

The early evidence is that they are indeed succeeding. They added many, many more subscribers in the first part of this year than anybody, including **The New York Times**, had anticipated. You are coming off 2016 elections, and to put it mildly, the news is all over the place these days. So yes, they are going to get their subscribers, but if they keep this kind of growth up and hold on to subscribers they have, this new business model comes into play. The result should be very romantic on the bottom line.

TWST: And this is a very different approach than, let's say, the newspapers of years ago, where there was a big national company that had different papers across the country and maybe different publishing companies, maybe some TV stations. I mean, this is a very different approach from that, right?

Mr. Lewis: Yes, you are thinking of **Gannett** (NYSE:GCI), for instance?

TWST: Gannett or any companies like that.

Mr. Lewis: No, no, they are not trying to roll up newspapers across the country. I mean, I've been a digital subscriber to **The New York Times** for as long as I can remember. Now they are trying to get you to be a paid digital subscriber, too. They don't want to bring you a newspaper. They want you to pay them $12 a month and get the news bright and early every morning and as it breaks. They do a good job of

1-Year Daily Chart of New York Times Co.

Chart provided by www.BigCharts.com

And so for instance, if you were following James Comey's testimony yesterday, you could follow it pretty close to minute by minute on your iPhone or your iPad via **The New York Times** or *The Wall Street Journal*. *The Wall Street Journal* also did a nice job, but as I said, outside of a short list, it is difficult to do what **The New York Times** does. It is not yet clear that **The New York Times** will be successful, by the way; it may not be. There is a lot of competition out there.

TWST: But it is definitely something investors should watch carefully?

Mr. Lewis: Yes, and the evidence coming in is indeed that they are enjoying success. Using very, very conservative estimates of subscription growth — now again, you are assuming that it will grow — **The New York Times** should earn somewhere north of a dollar a share in 2018, maybe well north of dollar a share. In that case, you know the stock is going to be all right.

TWST: And did you want to mention another company?

Mr. Lewis: One of our most recent investments, again, goes to the agriculture sector, and that's **FMC Corporation** (NYSE:FMC). **FMC** makes things to protect crops. They make herbicides, fungicides, insecticides, not for your usual big crops like corn, soybeans, those kinds of things, the so-called row crops where the competition is very, very intense, but for more like fruits, vegetables, that kind of thing where you are not competing against behemoths such as **DuPont** (NYSE:DFT).

DuPont is merging with **Dow** (NYSE:DOW) and, for regulatory reasons, has to divest itself of a big part of its crop and crop-protection business. They have worked out a deal with **FMC** wherein **FMC** will be taking **DuPont's** crop-protection business from them and also getting certain R&D capabilities. Now, **FMC's** business will extend into Europe in a way that it hasn't before. They have been pretty reliant on Latin America heretofore. With the new deal, they will be in Europe, a significant boost to their earnings power.

TWST: And has the company in the past been worried about too much regulation? I guess they are in some industries that environmental regulators might watch carefully. And in the United States, might the priorities of the Trump administration help the company financially?

Mr. Lewis: Don't really know. I mean, part of what they, as a specialty chemicals company, will always have to worry about is that kind of thing. There is regulation all over the place, and they do operate internationally. I can assure you that from years of having investments of various types there myself, Brazil is a really hard place to operate, but **FMC's** been able to handle that; it's just part of the job. Certainly, our interest in **FMC**, there's nothing about Trump or anything like that or tax treatment that is much involved in our calculations. Obviously, if we had a lower tax rate, you are always happy to pay fewer taxes than more, but we're not — again, we're looking at years from now, not what's going to happen in 2017 or 2018.

TWST: And it's very much a global company. It's not just a couple of countries, but it really operates globally?

Mr. Lewis: Yes, increasingly it is. I mean, it's not one like **DuPont** or **Monsanto** (NYSE:MON) or something like that, but they are all over the world, and especially since the deal with **DuPont**, they really are spread out — China, all over Latin America and now Europe quite significantly, and over North America. This company has been around for a long time and changed stripes on a number of occasions. I think that, again, the investing world had decided that farmers were all going out of business and that nobody would ever eat anything ever again. **FMC** was selling for a pretty low price, and they've come in and handled it very well.

"The spinoffs usually come out well-financed, with balance sheets in good shape. Nobody on the Street covers them, so they don't attract a lot of attention at first, so prices are reasonable, and sometimes you can wind up with a real good one."

The kind of nice thing is that **FMC** owns and has owned, since the late 1920s, significant deposits of lithium. Many are in Argentina near the Pacific coast, where the cheapest to extract and largest deposits of lithium reside. The entire world is going crazy to become as electric as possible — electric cars, self-driving cars, that kind of stuff, electric this, electric that. It all runs on lithium batteries.

There isn't that much lithium in the world. Some of the biggest deposits and easiest to extract are along the Pacific coast in South America. There are also deposits in Australia and China, and some in the United States, but much more expensive to get out. **FMC** does have this very nice situation in Argentina and has announced that in the next year or two or three, probably next two years, they will spin off their lithium operations to the general public.

So you get a nice crop-protection business, very nice crop-protection business, a company that earns high returns on invested capital and management that knows what it's doing. And you get this little option, which is a couple years out, the spinoff of the lithium business. It's not a significant part of **FMC's** business right now, but it looks to be, could be; I mean, the growth rates are pretty fantastic.

There's a phenomenon we've identified that has worked very well for us for long-term investors, and that is that certain of our companies are very cyclical in nature, but they're built to run as what they call good cyclicals. **General Dynamics** (NYSE:GD) is an example. We've owned **General Dynamics** for 20 years now.

General Dynamics went through a long period when you couldn't get a federal budget passed — pretty tough when you're a defense contractor. And who wants to buy a defense stock when the Democrats have the White House and both houses of Congress, as was the case a few years ago? But **General Dynamics** managed the downturn in exemplary fashion, and now that things are picking up, they're making money. That's true of another investment of ours, **John Deere** (NYSE:DE), which weathered this agricultural storm beautifully. I think the same applies to **FMC**, a good cyclical.

TWST: And did you want to mention one final company?

Mr. Lewis: Let's see. We've had some success with spinoffs. For instance, XYZ Corporation will decide it no longer needs a

subsidiary called ABC and will spin it off to the general public. The spinoffs usually come out well-financed, with balance sheets in good shape. Nobody on the Street covers them, so they don't attract a lot of attention at first, so prices are reasonable, and sometimes you can wind up with a real good one.

We've been buying **Keysight Technologies** (NYSE:KEYS), which is the old **Hewlett-Packard**, the one that William Redington Hewlett and David Packard founded back in 1939. These are the guys who invented the oscilloscope and the business that does measurements and sells measuring devices, calculators, things like that. Years ago, it was part of a spinoff from **Hewlett-Packard** called **Agilent** (NYSE:A). And then, two years ago, **Agilent** spun off the measurement business, and that's **Keysight**.

The attraction there is that **Keysight** has a number of different businesses, but one of the most significant to them is their telecommunications business. The telecommunications industry is moving to a new model in the next few years, as 5G networks are going up soon. **Keysight** is in the position — and will be in a position — to decide what the new standards for 5G will be. Obviously, if they get to set the standards, guess whose equipment measures those standards?

This could be quite significant for business beginning a year or two from now and will probably last a long time. The adjustment to 5G won't be something that everybody does for a year or two, then they are set. It is more likely an ongoing situation, very favorable for **Keysight**. Almost nobody I know has ever heard of **Keysight**, which is good for us.

TWST: And 5G looks like it's going to be similar in popularity to how 4G and 3G have been very popular?

Mr. Lewis: It's the next level and difficult to see why it won't be the standard on a global basis in a few years' time.

TWST: And changing direction a bit, do you want to talk a little bit about some of the concerns of investors when you talk to them about 2017 and 2018?

Mr. Lewis: Sure. Well, everybody is still scarred from the disaster of 2008 and, a matter of fact, the entire decade that ended December 31, 2009, the worst in investment history. People are badly scarred. And you've got a market at all-time highs — another day, another all-time high. But you can't hear the sound of champagne corks popping anywhere. There is none of the euphoria usually associated with successive market highs. I mean, the question I get is, "Shouldn't we sell now while we can?" That's a funny thing to say when your net worth just hit an all-time high.

But yes, people are scared. People are concerned. The political situation obviously is highly fraught. Every day in the news comes the latest from the Trump White House, the latest from Europe or something; it's all bad news. But we here at Weybosset Research try to keep our eyes on the fundamentals, on how our businesses are doing, and we find this pervasive gun-shyness provides us with more opportunities than not.

My concern is that things are getting expensive. There is just no way around it. We're not crazy expensive. We are not nosebleed expensive, as in 1999, that's for sure, but we are kind of getting there. And it's very, very difficult to ascertain what a proper value would be when interest rates have been held so low for so long, what economists call financial repression. If you decide that you're going to keep interest rates so low so long, well then, what's an asset worth? What's a farm worth? What's an office building worth? What's a company worth? Well, it's the present value of all the future cash flows discounted at an appropriate rate. The lower that discount number, the higher the present value.

When your 10-year Treasury is just a little bit above 2%, the 10-year Treasury is selling at 50 times earnings. With the stock market at 18 or 19 times, by those parameters, everything is cheap. But it's hard to believe that the current level of interest rates is going to be the same level of interest rates five or 10 years from now. So valuation, it's really difficult to do. You've got to be careful. And my sense is that everybody is scared to death, frankly. I just don't hear anybody celebrating the new highs, but when they start celebrating, we'll start selling.

TWST: You've worked at the bigger firms, and you've worked with a boutique firm now. Why do you think investors might want to consider going with a smaller boutique firm rather than some of the larger firms when they're looking for investing opportunities?

Mr. Lewis: Well, it depends on what you want. Investing is highly personal, and people's money is a highly psychological, really delicate psychological problem. Some people just feel comfortable going someplace where there are granite columns and polished marble, and a lot of people in suits walking around. But I think from the point of view of somebody who is interested in making some money on their investments and being careful, a smaller place is just far more agile. You can adjust more quickly. You're more flexible. Your playing field is much wider. It is just the way to go.

A client of ours, a longtime client of ours, her late husband was a successful venture capitalist. He told her, "Anybody who's any good is not going to work for a bank; they're going to work for themselves." I think you are going to find most of the talent wants to be out on its own.

TWST: And do you think you also get to know your clients better?

Mr. Lewis: Oh sure, absolutely yes. I've been doing this for 37 years, and I've plenty of clients that have been with me for 30 years and 35 years and even 37 years. And now, we have their kids and even their grandkids. They've gotten used to the way we operate; we've gotten used to them.

Investing people's money is a very, very personal matter, and you can respond to that better if you know them longer and if you know them one on one. When people are interested in what's going on with

"But I think from the point of view of somebody who is interested in making some money on their investments and being careful, a smaller place is just far more agile. You can adjust more quickly. You're more flexible. Your playing field is much wider. It is just the way to go."

their investments, with us, they don't talk to a trust officer or a sales representative; they talk to the guy who made the investment decision. That's me, or that's Justin, or that's Tom. You can get your answers from the horse's mouth.

TWST: And one final question: With the Baby Boomers now, are you seeing them still wanting to be involved with the market, even if they've reached retirement age, or are they a little shy about investing still?

Mr. Lewis: Everybody is very shy and for good reason. After the decade of the early 2000s, very shy. They think, "These are the things that blow up in your face." So sure, everybody wishes there were something to do besides own common stocks, but you'll never make any money on your savings otherwise.

I think one of the reasons why the stock market is doing what it is doing is there's all that money out there, and it is looking for a place to go. What pension plan, what endowment or what couple saving for retirement figured on 2.5% return — pretax and pre-inflation? Not much outside of the stock market will do the job these days. So yes, people are very nervous. There's no question about it. But from the point of view of an investor, that's not bad; that's good. It's when they bring out the party hats and pop the corks off the champagne that you're heading into trouble. That's not the case.

TWST: And do you think that given that people are oftentimes living longer, even if you're in your 60s, you still need to get the kind of returns you might want to be getting in the market versus what you might get at your local savings bank?

Mr. Lewis: Yes, at an absolute minimum. I would think for anybody thinking about retirement or anything else, at an absolute minimum, you want to retain the buying power of your dollar. You need $7 today to buy what a dollar would buy 50 years ago. They say that the only things that are certain are taxes and death. Well, you can get your taxes down, and you can't get out of dying, but inflation for the investor has to be at least as big of a problem.

Sometimes inflation is bad as it was in the 1970s, and sometimes it's benign, as it's been in the 2000s, but it's always been there, and it's always eroding away the value of your dollar. So you might have a couple of million dollars on which to retire, but if you live another 10 years or 15 years, you'd like to be able to buy a couple of million dollars' worth of today's goods and services. You're not going to do that with the bank, and you're not to going to do that with Treasury bonds.

TWST: Thank you. (ES)

FLA LEWIS III
Principal
Weybosset Research & Management, LLC
72 S. Main St.
Providence, RI 02903
(401) 421-7171
www.weybosset.com

© 2017 The Wall Street Transcript, 622 3rd Avenue, New York, NY 10017
Tel: (212) 952-7400 • Fax: (212) 668-9842 • Website: www.twst.com