JANUARY 1, 2023 VOL. 33

InsideArbitrage

May the odds be with you

Special Situations Newsletter for Premium Subscribers

IN THIS ISSUE

A M&A Special

by Asif Suria

2022 was a challenging year. With few exceptions, most assets classes declined as three bubbles including tech growth stocks, real estate and cryptocurrencies, simultaneously deflated.

The energy sector, short positions, merger arbitrage and Indian equities were a few bright spots in a desolate landscape. We had exposure to three out of these four themes and that helped.

The Inside Arbitrage model portfolio outperformed the 19.44% decline of the S&P 500 and the 33% decline in the Nasdaq. However our decision to gradually get into some beaten down growth stocks with the realization that we are likely to be early had a negative impact and we ended the year down 9%. I believe we will eventually benefit from these investments once the market bottoms and some of these companies not only survive, but start to thrive. The model portfolio since inception is up 20.41% and the 19 trades we closed generated average gains of 28.74% with an average holding period of 338 days. Seven of these trades were merger arbitrage situations with an average holding period of 163 days.

As I look out towards 2023, the situation looks murkier than it did at the outset of 2022 when I was firmly in the bearish camp and strongly believed that inflation was likely to persist. This year, once again, macro economic factors will continue to dictate market direction and it comes down to when the Fed signals a stop to further rate increases.

We killed the pandemic related bear market with unprecedented levels of fiscal and monetary stimulus and kicked the can down the road in March 2020. Unlike the early 2020 scenario where we had a V shaped recovery, once we hit the bottom this time, the recovery is likely to be prolonged and gradual even if we miraculously end up with a soft landing. Obviously none of us have a crystal ball and the best we can do is look at the information at hand through the lens of our prior experiences.

In our May 10, 2022 article, Capitulation or Forced Selling, I wrote the following,

"While this feels like forced selling, I am still not seeing enough signs of capitulation. Instead of throwing in the towel, I am getting multiple questions about what I am buying right now. When most retail investors who have not experienced multiple cycles reach the "how can it go any lower" stage or no longer want to discuss stocks, we will be closer to capitulation.

Once the indiscriminate selling ends, I think certain segments of the market including commodities will do well and certain strategies like merger arbitrage will lend themselves well to a directionless market. The three signs I will be paying special attention to to determine if conditions are likely to change are, the Fed pausing or slowing down its interest rate hikes, insider buying exceeding insider selling for a few weeks and the war in Ukraine coming to an end."

It is remarkable how little had changed nearly eight months later. In a world where treasuries and other instruments are starting to yield reasonable returns, investors will continue to shy away from dividend stocks and interest rate sensitive sectors like housing and REITs. With the signing of the $1.7 trillion infrastructure bill and China reopening, I expect the commodities sector is likely to continue performing well and believe merger arbitrage will remain a strong spot despite a pullback in overall M&A activity.

We decided to once again make our January Special Situations newsletter a M&A special. One of our two spotlight ideas this month also happens to be a merger arbitrage situation that we have covered in the past and that in our view is one of the more interesting opportunities in this space. It was worth revisiting the idea again and I invited Frank Moneymaker to write about the idea. He last wrote about the acquisition of Abiomed by Johnson & Johnson in an article titled November 2022 Mid-Month Update – An Almost Free Lottery Ticket. The Abiomed deal closed on December 22, 2022, just 51 days after it announced and returned our money back along with the free lottery ticket.

The other spotlight idea is also a situation we have covered in the past. The company has seen an accelerated level of insider buying and I still believe it is a strong acquisition candidate.

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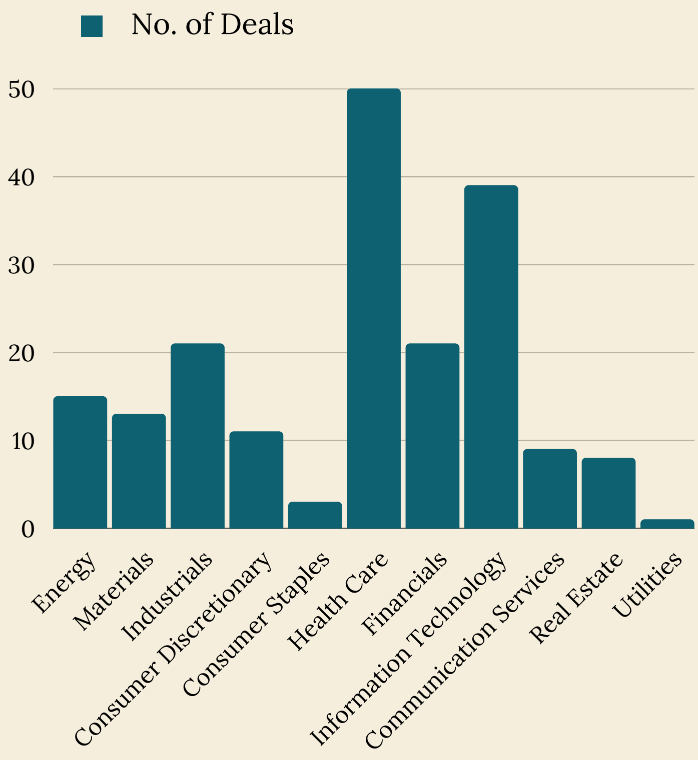
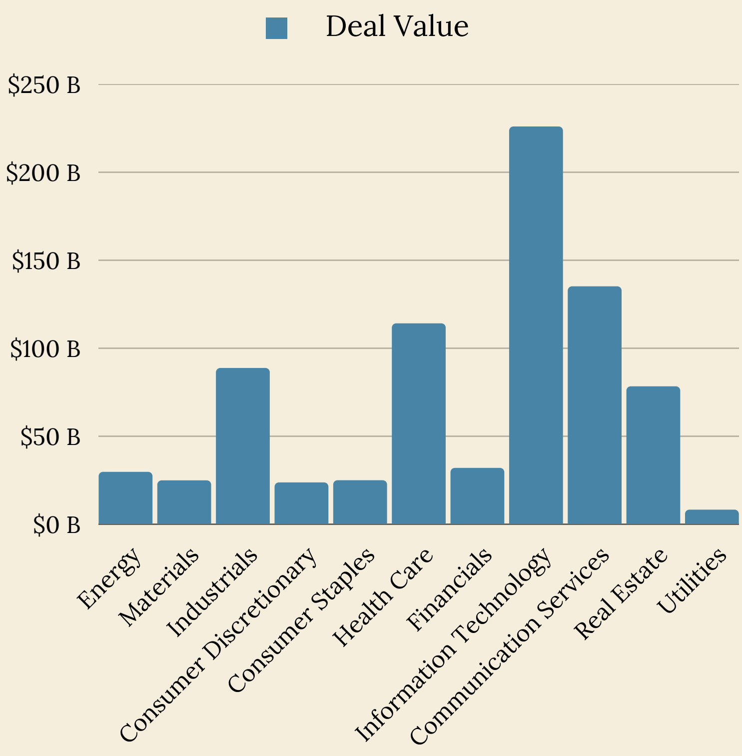
U.S. Mergers and Acquisitions: A 2022 Report

U.S. M&A activity declined in 2022 with a 9.9% decrease in deal volume compared to the $841 billion worth of deals announced in 2021. There were 191 deals worth over $758 billion announced in 2022.

2022 M&A Statistics	
Deals Announced	191
Deals Completed	196
Deals Terminated	7
Potential Deals In The Works Announced	187

Number and Volume of Deals Announced in 2022 by Sector





DEALS COMPLETED IN 2022

196 deals completed successfully in 2022. Some of the multi-billion dollars that were completed, include the acquisition of Twitter (TWTR) by ELon Musk, the acquisition of IHS Markit Ltd. (INFO) by S&P Global (SPGI), the acquisition of Xilinx, Inc. (XLNX) by Advanced Micro Devices (AMD), and the acquisition of Cerner Corporation (CERN) by Oracle (ORCL). Two deals, including Spirit Airlines (SAVE) and Yamana Gold (AUY), received higher offers.

TOP 10 DEALS ANNOUNCED IN 2022 BY SIZE

1. The acquisition of VMware (VMW) by Broadcom (AVGO) for $69 billion in a cash or stock deal. This deal is currently under scrutiny by EU antitrust regulators.
2. The acquisition of Activision Blizzard (ATVI) by Microsoft Corporation (MSFT) for $68.7 billion or $95.00 per share in cash. This deal has been going through multiple regulatory hurdles and we have written in detail regarding this in our spotlight idea section of this newsletter.
3. The acquisition of Twitter (TWTR) by an entity wholly owned by Elon Musk for $44 billion or $54.20 per share in cash. We wrote extensively about this deal in some of our weekly Merger Arbitrage Mondays posts. The deal was successfully completed on October 28, 2022.
4. The acquisition of Horizon Therapeutics Public Limited Company (HZNP) by Pillartree Limited, a newly formed private limited company wholly owned by Amgen (AMGN) for $28.3 billion or $116.50 per share in cash.
5. The acquisition of Duke Realty Corporation (DRE) by Prologis (PLD) for $26 billion in an all stock deal. The deal was successfully completed on October 3, 2022.
6. The acquisition of Albertsons Companies (ACI) by The Kroger Co. (KR) for $24.6 billion or $34.10 per share in cash. As part of the transaction, Albertsons will pay a special cash dividend of up to $4 billion to its shareholders. This deal has been going through multiple regulatory hurdles ever since it was announced.
7. The acquisition of Abiomed (ABMD) by Johnson & Johnson (JNJ) for $16.6 billion. The deal was successfully completed on December 22, 2022.
8. The acquisition of Citrix Systems (CTXS) by Vista Equity Partners and Elliott Investment Management for $16.5 billion or $104 per share in cash. The deal was successfully completed on September 30, 2022.
9. The acquisition of Black Knight (BKI) by Intercontinental Exchange (ICE) for $16 billion or $85 per share.
10. The acquisition of Nielsen Holdings (NLSN) by Evergreen Coast Capital Corporation for $16 billion or $28 per share in cash. The deal was successfully completed on October 11, 2022.

POTENTIAL DEALS IN THE WORKS

There were 187 potential deals in the works announced in 2022, significantly higher than the 111 potential deals announced in 2021.

52 of these rumored deals entered into definitive merger agreements. Potential deals that were classified as "news source" deals performed the best.

DEALS TERMINATED IN 2022

7 active deals were terminated in the year 2022, well below the 16 deals terminated in 2021. These include deals that may have been announced in prior years but failed in 2022.

We wrote the following in an article titled 'Big Game Hunters: Going After Those Juicy Merger Arbitrage Spreads' on October 18, 2022.

Failure in arbitrage land is not perceived the same way it is perceived in life or in entrepreneurship. Failure is not the stepping stone to success. Failure in arbitrage hurts. When a deal with 5% upside blows up, it can wipe out anywhere from 30% to 50% of your capital. This might be the reason arbitrageurs have gone on to have very successful investing careers after they left the arbitrage world. You are constantly assessing the probability of success, trying to figure out what could go wrong and paying attention to details that other investors might ignore.
The corollary to this is that deals sometimes trade at wider spreads than they should and for the risk arbitrageurs who like to go out on the risk spectrum, this can turn into a high risk/high return roller coaster, especially when leverage is involved.

Regulatory issues remain the main reason for deal failure, accounting for more than a third of all failures. While two companies, including Change Healthcare, recently challenged the Department of Justice in court and won, this is not common. Antitrust and cross-border issues will continue to weigh on deals and these deals typically start their journey with large spreads as we saw with Kroger's (KR) acquisition of Albertsons (ACI), which started trading with a juicy spread of 30%.

The news is not all bad. There are some deals that enter a bidding war as new parties emerge that are interested in the deal. The acquisition of Coherent by II-VI Incorporated (IIVI) went through a nine rounds of counter offers after the deal was announced. The acquisition of R. R. Donnelly & Sons similarly went through a bidding war that saw its final price of $10.85 end up 45% higher than the original offer of $7.50 from Chatham Asset Management. The battle for Straight Path Communications between AT&T (T) and Verizon (VZ) saw Straight Path's stock price nearly double from the original deal price, with Verizon emerging the winner. In each of the last three years, we saw 3% of deals end up with higher offers.

January 2023 Spotlight Idea: Activision Blizzard, Inc. (ATVI) $76.55

Summary

- Microsoft's $95 per share acquisition of Activision Blizzard trades at a large spread of 24.1% or over 48% annualized if the deal closes by mid-2023.
- While the deal faces regulatory issues around the world, Microsoft has recently received some international approvals, has offered concessions or will litigate lawsuits that block the deal.
- Our base-case DCF model provides an implied share price range of $70.78 - $74.96 per share, or a roughly -7% haircut from where the stock is currently trading.

Editors's Note: I invited the newest member of the Inside Arbitrage team to write about Activision Blizzard's acquisition by Microsoft. Frank Moneymaker is a Boston-based Investment Analyst at LVS Advisory specializing in merger arbitrage research. He can be reached at frank@lvsadvisory.com.

On January 18th, Microsoft Corp. (MSFT) announced it would acquire Activision Blizzard Inc. (ATVI) in an all-cash deal valuing the company at $68.9 billion, or $95.00 per share.

This transaction stands as the new largest tech deal on record and, if approved by regulators, will make Microsoft the world's third-largest gaming company (behind Tencent and Sony). In acquiring Activision Blizzard, Microsoft gains control over legendary gaming franchises like Call of Duty, Candy Crush, and Warcraft, as well as ATVI's 400 million player base. Microsoft also unlocks significant opportunities in the mobile gaming market - the largest and fastest-growing gaming segment.

When discussing the transaction's strategic benefits, Microsoft's CEO Satya Nadella also mentioned the benefits of cloud integration:

> *"Through the cloud, we're extending the Xbox ecosystem and community to millions of new people, including in global markets where traditional PC and console gaming has long been a challenge. And when we look ahead and consider new possibilities, like offering Overwatch or Diablo, via streaming to anyone with a phone as part of Game Pass, you start to understand how exciting this acquisition will be."*

Microsoft expects the deal to be accretive to EPS immediately upon close (excluding the impact of purchased accounting adjustments, non-recurring integration expenses, and transaction-related expenses) and is guiding toward a June 2023 close.

Activision's shareholders have already approved the proposed merger, and no shareholder vote is required from Microsoft. Additionally, financing is not a condition to close, and the definitive proxy states that Microsoft will have sufficient funds to consummate the transaction.

January 2023 Spotlight Idea: Activision Blizzard, Inc. (ATVI) $76.55

The merger agreement includes three different reverse termination scenarios, depending on the timing of a potential break. If the transaction breaks prior to January 18th, ATVI will be entitled to receive a $2 billion reverse termination fee. If the transaction breaks after January 18th but before April 18th, ATVI will be entitled to receive a $2.5 billion reverse termination fee. Lastly, if the deal breaks after April 18th, ATVI will be entitled to receive a $3 billion reverse termination fee.

With a 24% gross spread, the market is clearly pricing in significant regulatory concerns. By reviewing the current antitrust situation and valuing Activision Blizzard's prospects as a standalone company, arbitrage investors may conclude that this merger offers a compelling risk-return profile.

Regulatory Overview

On December 8th, the FTC voted 3-1 to file a lawsuit blocking Microsoft's acquisition of Activision Blizzard. This marks the second major Big Tech suit from the Lina Khan-led agency and establishes a landmark trial over the future of antitrust behavior.

An FTC official stated,

"The lawsuit warns that the deal not only could give Microsoft an upper hand in consoles, but also an unfair advantage in more nascent gaming, such as subscription gaming and cloud gaming... The FTC argues that this deal could dampen innovation in these more nascent gaming markets."

The biggest concern here is that Microsoft will prevent competitors from offering games like Call of Duty to their player base, which would limit equitable access to content.

There are several points to consider, the first being the gaming industry's longstanding history of exclusive content. Since the Atari 2600 and the dawn of consoles, exclusives (and variations such as timed exclusives) have been ubiquitous in the industry. This excellent website provides a comprehensive list of exclusive games for different consoles and highlights how commonplace exclusive releases are in gaming.

Furthermore, Microsoft has been working hard to proactively sign agreements and telegraph its intentions not to limit access to Call of Duty. The company has already signed a 10-year commitment to bring Call of Duty to Nintendo platforms and offered the same commitment to Valve and Sony. Gabe Newell, the co-founder of Valve, responded positively to Microsoft's offer by saying he doesn't need an agreement as he knows Microsoft will release games on Steam. Only Sony has yet to respond to the proposal.

January 2023 Spotlight Idea: Activision Blizzard, Inc. (ATVI) $76.55

Microsoft's president Brad Smith disclosed the Sony offer in a Wall Street Journal op-ed piece, noting that Sony was the "loudest objector" to the deal. Smith also said that the FTC didn't allow Microsoft to sit with staff to discuss a "legally binding consent decree" to keep Call of Duty on gaming rivals, including Sony.

The FTC's press release cited Microsoft's record of acquiring publishers and limiting game access to rivals, specifically the recent Zenimax merger, after which Microsoft made several titles Microsoft exclusives despite assurances to the contrary. However, following the publication of this document, the European Commission corrected the FTC, stating that:

> *"the conclusion that there are no competition concerns did not rely on any statements made by Microsoft about the future distribution strategy concerning Zenimax's games."*

The full complaint (which can be read here) further reinforces the growing trend of U.S. regulators bringing long-shot cases to court, even when there is a risk of failure. Antitrust issues are typically brought to court over consumer impacts arising from horizontal acquisitions. According to FTC guidelines: "The key question the agency asks is whether the proposed merger is likely to create or enhance market power or facilitate its exercise. The greatest antitrust concern arises with proposed mergers between direct competitors (horizontal mergers)". Horizontal mergers represent the standard antitrust case, and the agency has gone so far as to create horizontal merger guidelines that provide the agencies' analytical framework for determining anti-competitive behavior.

Critically, the litigation against Microsoft's acquisition focuses primarily on the effects arising from vertical integration - a prosecution angle that is seldom used. In fact, the 2018 DoJ case against AT&T's $85 billion merger with Time Warner (which the DoJ lost) was the first time an antitrust challenge to a vertical merger was litigated in over 40 years.

Anthony Micheal Sabino, a partner at Sabino & Sabino and a professor at St. John's University School of Law, believes that prosecuting this case will be an uphill battle for the FTC.

> "*I think the government still has this knee-jerk reaction, that bigger means bad*," Sabino said. "*Will tech mergers continue? Will there be consolidation in the industry? Sure. But I think, again, there's going to be a higher level of scrutiny.*"

On December 22nd, Microsoft released a document responding to the FTC's complaint against the company. The introductory section arguments are structured around Microsoft's underdog position in the console and mobile gaming markets, its promise to keep Call of Duty non-exclusive, and its game distribution channels.

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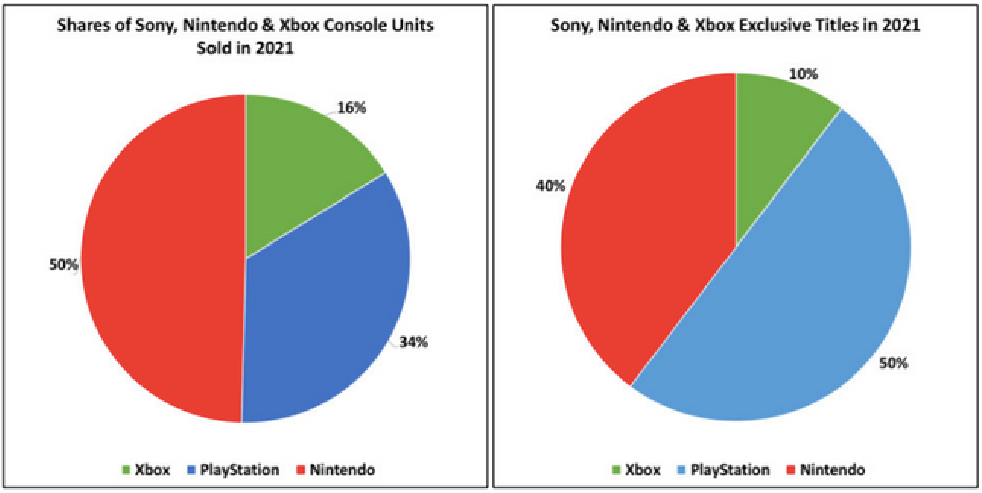

Source: Microsoft's response to the FTC

On December 17th, the WSJ reported that a hearing would occur in the FTC's administrative court in August unless a resolution is reached. The FTC's aggressive response to the ATVI merger was largely expected, as the stock only dropped 1.5% in response to the news and has subsequently traded back up to where it was pre-announcement.

In addition to the pushback from the U.S. regulators, authorities in the UK and EU are also investigating the potential anti-competitive impacts that may arise from the merger. On September 15th, the UK's Competition and Markets Authority (CMA) referred the acquisition for a phase 2 review and announced an in-depth investigation. Regulators had been meeting with rival Sony and spent weeks deliberating on the transaction. On October 14th, the CMA published its issues statement, which lays out the scope of the investigation.

In response to the CMA's arguments, Microsoft submitted a lengthy 111-page document addressing each contention in detail. The concerns shared among US, UK, and EU regulators are largely similar, and reading Microsoft's defense statement provides compelling evidence that the merger stands on firm ground. Among the previous points mentioned above, Microsoft is positioning itself as an underdog in the gaming industry, saying:

> *"Xbox is the smallest of the three console competitors with less than [20-30]% share worldwide and less than [30-40]% in the UK. The other party, in this case Activision, is only the fifth largest competitor of more than a dozen suppliers competing in the upstream market with less than a [20-30]% share worldwide and in the UK."*

> *"Activision's limited share in console publishing (even when combined with Xbox's own content) is less than [20-30]% worldwide and in the UK combined"*

> *"PlayStation has more than double the MAUs (close to 60 million more) of Xbox."*

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This is far from monopolistic, and even competitors such as Tencent's CEO Strauss Zelnick claim to have no issues with the deal. Zelnick said in an interview with CNBC that: "*Generally speaking, I don't think people are particularly concerned because it remains a fragmented business... We don't really think the competitive landscape is meaningfully affected in the event that that merger goes through,*"

Notably, the CMA also released a summary of the responses gathered from the public relating to the CMA's issues statement. According to the document, "*Of the 2,100 emails that we reviewed, around three quarters were broadly in favor of the Merger and around a quarter were broadly against the Merger.*" Seeing this level of public support, and the consensus rationale of those in favor of the merger, provides further evidence that regulators may face an uphill battle in proving the merger is anti-competitive.

The last agency to keep an eye on, the European Commission (EC), opened an in-depth investigation into the merger on November 8th. It has until March 23rd to make a decision, and recently released a ~90-page questionnaire to related parties asking about potential measures Microsoft may take to keep Activision Blizzard's games exclusive to Xbox platforms.

If the merger closes in June as planned, investors will earn roughly $18.45 per share and realize a stellar 48% IRR (assuming a 6/30 close). The upside of a successful buyout is undoubtedly compelling, but what happens if the regulators block the deal? To answer this question, the following section reviews Activision Blizzard as a standalone company and provides a DCF valuation in addition to sell-side analyst estimates.

A Brief History of Activision Blizzard

Activision Blizzard is a leading developer and distributor in the gaming industry. Activision was founded in 1979 by former Atari employee and businessman Jim Levy. The company initially found success by creating games for the Atari platform and became one of the first to do so successfully. Unfortunately, things quickly took a turn for the worst. Activision barely survived the video game market crashes of 1984 and 1986, during which time players became frustrated with low-quality games and caused a large-scale recession in the video game market.

In 1988, Activision appointed CEO Bruce Davis, who changed the company's name to Mediagenic. His team issued a salvo of changes that upset devs and led to a significant loss of talent for Activision. As the industry began to recover from the crash of '86, Activision lost most of its talent and did not have enough money to develop new games.

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Fortunately, businessman Bobby Kotick arrived in the nick of time and bought 25% of the company in 1991, right as Activision was on the verge of bankruptcy. He turned ATVI around and serves as CEO to this day. Under his leadership, Activision became known for publishing high-quality games and quickly unlocked its first cash cow franchise with the release of Tony Hawk's Pro Skater game in 1999.

The success of Pro Skater caused Activision to implement a yearly release schedule for key franchises - which remains a staple of its publishing model. Throughout the early 2000s, Activision began to acquire studios, most notably Treyarch in 2001 and Infinity Ward in 2003. During this time, ATVI announced the first installment of the legendary Call of Duty franchise.

Despite the company's success in the early to mid-2000s, Activision still lacked presence in several key markets/geographies. To this end, Kotick set his eyes on acquiring Blizzard, - creator of leading franchises like Diablo, Starcraft, and World of Warcraft.

Warcraft and Starcraft were both extremely popular in Asian markets and provided the impetus for the company to release further games in the region. The merger closed in 2008 and cemented Activision as the top pure-play online and console game publisher, with the highest revenue and operating margin among its peers.

The next major business transition occurred in 2016 as ATVI entered the mobile gaming market. The company acquired mobile gaming giant King Digital for $5.9 billion, and with it, the popular mobile game Candy Crush. The company has continued to lean into the mobile opportunity, releasing games like Call of Duty Mobile and Diablo Immortal.

Activision Blizzard currently stands as a publishing giant in the interactive entertainment industry. Its newest installment of Call of Duty smashed records and quickly became the highest-selling game of 2022. The company leads the game development industry with a market cap of $59 billion and is closely followed by Nintendo, EA, and Ubisoft. ATVI's story is one of excellent IP control and expansion into new markets.

Company Overview

ATVI's business is split into three separate segments: Activision, Blizzard, and King. Each developer has its own franchises and publishes games across distribution platforms (consoles, PCs, and mobile phones). These publishers monetize games using various business models, including free-to-play (F2P), microtransactions, subscriptions, and ad-supported gameplay.

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The flagship Activision studio boasts a product line consisting of several highly-successful franchises, like Call of Duty. Call of Duty has a whopping 19 entries in the main series (available on major consoles and computers) and has since expanded into the mobile market with the release of Call of Duty Mobile. The series has released one game a year since its inception, providing Activision with a reliable source of recurring revenue (this yearly cycle may be switching to a bi-yearly cycle, depending on the success of the newest game). The company also publishes singles like Sekiro: Shadows Die Twice.

The second major studio, Blizzard, has a variety of different games under its umbrella, including the massively popular World of Warcraft series (which generated $470.58 million in revenue this year). Warcraft is only available on PCs, but many of Blizzard's other products (such as Overwatch and Diablo) are also available on gaming consoles and mobile devices. Like the release of Call of Duty: Mobile, Blizzard released Diablo: Immortal as a mobile game in an effort to further penetrate the mobile gaming market.

In addition to organic mobile releases, the company also relies on its third studio, King Entertainment, to drive mobile growth. King's games are distributed primarily through mobile devices and is most known for the Candy Crush Saga games. Candy Crush generates revenue through a combination of in-game purchases and advertising. However, the revenue generated by additional content purchased within the game has led to King contemplating a decrease in its advertising.

Over half the company's "core revenue" is now derived from mobile gaming (excluding the impacts of new game releases from Activision/Blizzard studios, such as Call of Duty releases in Q4), and the proportion of mobile gaming revenue to ATVI's top three franchises - Call of Duty, Warcraft, and Candy Crush - accounted for 82% of revenues in 2021. This core concentration provides significant cash flow generation, which the company uses to drive organic investments into existing studios and M&A opportunities. The following table illustrates the company's content release cycle and what new games can be expected next year.

Activision Blizzard 2022/2023 Game Release Schedule	Game Developer	Category	Release Date	Platforms Available
Diablo Immortal	Blizzard	Free- to-play	Jun. 2, 2022	Mobile, PC (Beta)
World of Warcraft: Wrath of the Lich King Expansion	Blizzard	Subscription	Sep. 26, 2022	PC
Overwatch 2	Blizzard	Free- to-play	Oct. 4, 2022	Console, PC
Call of Duty Modern Warfare 2	Activision	Paid	Oct. 28, 2022	Console, PC
Call of Duty Warzone 2	Activision	Free- to-play	Nov. 16,2022	Mobile, Console, PC
Diablo 4	Blizzard	Paid	Jun. 6, 2023	Console, PC
DLC Expansion: Call of Duty Modern Warfare 2	Activision	Paid	Late 2023	Console, PC
World of Warcraft: Dragonflight	Blizzard	Subscription	TBD	PC

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Diablo 4 is expected to be a blockbuster hit, and the Call of Duty: MW2 expansion is part of a never-before-seen product release cycle. Depending on the success of this bi-yearly launch style, the company may continue to release its Call of Duty games every two years.

Before moving on to discuss the company's industry tailwinds, it is important to mention ATVI's sexual misconduct scandals.

Scandals and Misconduct

Activision Blizzard is currently the defendant in several court cases regarding sexual discrimination and workplace harassment. The plaintiffs allege that Activision Blizzard encouraged an environment in which female employees were groped, harassed, and discriminated against.

On July 20th, the California Department of Fair Employment and Housing (DFEH) filed a lawsuit after a two-year investigation revealed that the company systematically discriminated against female employees. Male employees sexually harassed women, and the "frat bro" culture led to inappropriate office behavior. Tragically, the most extreme abuse case resulted in a woman taking her own life after being subjected to sexual harassment.

In addition to the unacceptable actions by employees, the company's management has been accused of being dismissive towards the same claims brought in the lawsuit and has long allowed this sort of behavior.

The DFEH suit meets in February 2023 for the trial, and lawyers believe that the agency seeks to make an example out of Activision Blizzard. "*The DFEH would want to take on cases to set precedents, against particularly bad actors, if there are a lot of complaints about the same employer, or to send a wake-up call to the industry*," said Clare Pastore, a law professor at USC Gould School of Law and member of the California Advisory Committee to the U.S. Civil Rights Commission.

Along with the DFEH's case announcement, at least eight Activision Blizzard employees filed sexual harassment lawsuits alleging repeated sexual advances and harassment from Activision Blizzard employees/managers. The most recent lawsuit mentions a manager named Miguel Vega, who continually harassed a female employee. Vega left the company a month after a complaint was filed, but the lawsuit alleges that the company's actions were too slow.

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Activision Blizzard has already settled a major lawsuit from the Equal Employment Opportunity Commission (EEOC), after which the company was instructed to pay $18 million due to its sexual discrimination violations. Most recently, Activision Blizzard has filed a lawsuit against the DFEH, alleging that the agency has interfered during the company's settlement with the EEOC.

Since these scandals were brought to light, Activision Blizzard has taken steps to address sexual harassment issues within the company. ATVI has established an $18 million fund to compensate sexual harassment victims, and the company's settlement with the EEOC requires it to improve the company's mental health counseling services. Activision Blizzard has also promised to invest in training meant to eliminate harassment.

The company let go of various staff members, such as former creative director of World of Warcraft Alex Afrasiabi. It was reported that Afrasiabi was known for having a “Crosby Suite” during corporate events, where employees had to physically “pull him off of female employees.” Many of the company's employees have also signed a petition to remove Bobby Kotick from his position as CEO, stemming from his alleged cover-up of harassment issues.

Industry Overview

The gaming industry has seen exceptional growth in recent years, with total consumer spending growing at an average pace of 10% from 2018 to 2021. This stellar clip shows no sign of slowing, as PwC projects an average revenue growth from 2021 to 2026 of 9.8% y/y, with the industry reaching a staggering $321.1 billion in revenue by 2026.

One of the primary drivers behind this growth has been the increase in the number of players worldwide, which grew from 2.03 billion in 2015 to 3.32 billion in 2022. The following table illustrates the tremendous growth in players:

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Global Active Users Growth

Year	Number of Gamers	Increase/ Previous Yr.	Increase/ Previous Yr. (%)
2015	2.03 billion	-	-
2016	2.17 billion	140 million	+6.9%
2017	2.33 billion	160 million	+7.37%
2018	2.49 billion	160 million	+6.87%
2019	2.64 billion	150 million	+6.02%
2020	2.81 billion	170 million	+6.44%
2021	2.96 billion	150 million	+5.34%
2022	3.09 billion	130 million	+4.39%
2023E	3.22 billion	130 million	+4.21%
2024E	3.32 billion	100 million	+3.11%

Data Source: https://explodingtopics.com/blog/number-of-gamers

This trend shows no signs of slowing down, with the projected number of active players reaching 3.5 billion by 2025 (CAGR of 4.2%).

Looking at the industry in terms of geography, the Asia-pacific market generated the most global revenue in 2022 with an astounding $87.9 billion print, followed by North America and Europe with $48.4 billion and $32.9 billion, respectively. Notably, only 12% of Activision's revenue comes from APAC, compared to 56% from North America and 31.8% from Europe, the Middle East, and Africa.

The fact that Asia-Pacific maintains such a leading presence in the gaming industry, combined with Activision-Blizzard's low revenue share from the region, indicates that there is still significant potential for the company to increase its presence in this region.

In addition to the overall growth in new players and the opportunity for geographic expansion, ATVI also benefits from the rise of mobile gaming. Technological advancements have led to smartphones becoming powerful and affordable gaming devices, and in 2022, revenue from mobile gaming equated to 50% of the entire industry with $92.2 billion in annual sales. Mobile gaming is expected to grow at a CAGR of 11.9% over the next five years and generate $175.3 billion in revenue by 2027.

This year, the gaming industry generated $184.4 billion in revenue, a decline of -4.3% year-over-year. Despite this slight decline, the gaming industry has shown resilience in the face of economic challenges. The rise of the "free-to-play" model and subscription services have made games more accessible, and player engagement has remained high even during tough economic times. Additionally, the shift towards subscription services and monetization of F2P platforms has made the industry less hit-driven and seasonal than it once was.

January 2023 Spotlight Idea: Activision Blizzard, Inc. (ATVI) $76.55

Valuing Activision Blizzard

The revenue build for our model was conservative and did not include impacts from future M&A activity or unforeseen blockbuster releases. Factoring in steady high-single-digit growth in mobile gaming (King), a new Call of Duty release cycle, occasional Blizzard launches, and a baseline mid-single-digit Activision/Blizzard core growth rate, we arrived at a 4.1% revenue CAGR over the next six years.

Activision Blizzard *(in millions, except for per share data)*	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Activision	$ 2,219	$ 3,942	$ 3,478	$ 3,423	$ 3,150	$ 3,466	$ 3,389	$ 3,721	$ 3,663	$ 4,014
% of Total Revenue	*37%*	*49%*	*44%*	*43%*	*33%*	*37%*	*32%*	*35%*	*31%*	*33%*
Y/Y Growth		*78%*	*-12%*	*-2%*	*-8%*	*10%*	*-2%*	*10%*	*-2%*	*10%*
Blizzard	1,719	1,905	1,827	1,818	3,300	2,654	3,619	2,995	3,984	3,386
% of Total Revenue	*29%*	*24%*	*23%*	*23%*	*35%*	*28%*	*34%*	*28%*	*34%*	*28%*
Y/Y Growth		*11%*	*-4%*	*0%*	*82%*	*-20%*	*36%*	*-17%*	*33%*	*-15%*
King	2,031	2,164	2,580	2,758	3,006	3,277	3,572	3,893	4,244	4,625
% of Total Revenue	*34%*	*27%*	*33%*	*34%*	*32%*	*35%*	*34%*	*37%*	*36%*	*38%*
Y/Y Growth		*7%*	*19%*	*7%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
Total Net Revenue	**5,969**	**8,011**	**7,885**	**7,999**	**9,456**	**9,396**	**10,580**	**10,610**	**11,890**	**12,025**
Y/Y Growth		*34%*	*-2%*	*1%*	*18%*	*-1%*	*13%*	*0%*	*12%*	*1%*

ATVI has a compelling cost structure and generates significant generates cash flow. Due to low capex requirements, the company is left with substantial capital to deploy in share buybacks, M&A, and organic growth projects.

The following table provides our adj. EBIT and unlevered free cash flow estimates (note that consolidated revenue differs from net revenue due to impacts from non-reportable segments).

Activision Blizzard *(in millions, except for per share data)*	FY2019	FY2020	FY2021	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Total Consolidated Revenue	$ 6,489	$ 8,086	$ 8,803	$ 8,488	$ 9,945	$ 9,885	$ 11,069	$ 11,099	$ 12,379	$ 12,514
Y/Y Growth		25%	9%	-4%	17%	-1%	12%	0%	12%	1%
Adj. EBIT	1,607	2,734	3,259	2,978	2,787	2,696	3,404	3,291	4,069	3,998
% Margin	25%	34%	37%	35%	28%	27%	31%	30%	33%	32%
Y/Y Growth		70%	19%	-9%	-6%	-3%	26%	-3%	24%	-2%
Unlevered FCF	1,805	2,273	2,442	3,184	2,871	2,769	3,380	3,254	3,932	3,842
UFCF Conversion	28%	28%	28%	38%	29%	28%	31%	29%	32%	31%
Y/Y Growth		26%	7%	30%	-10%	-4%	22%	-4%	21%	-2%

January 2023 Spotlight Idea: Activision Blizzard, Inc. (ATVI) $76.55

For our final DCF model inputs, we assumed an 8.09% WACC, a 15x terminal EBIT multiple, and a 1% terminal FCF growth rate. We also included the impacts of a reverse termination fee - valued at $2.75 billion- which provides a $3.49 per share bump to our implied share price. Offsetting this fee is an estimated $500 million hit from the upcoming DFEH trial, which subtracts $0.63 from the implied share price.

Terminal Value - Multiples Method		
Target Baseline Terminal EBIT Multiple:		15x
Baseline Terminal Value:	$	59,968
Implied Terminal FCF Growth Rate:		1.6%
PV of Terminal Value:	$	37,597
Sum of PV of Free Cash Flows:	$	15,159
Implied Enterprise Value:	**$**	**52,757**
% of Implied TEV from Terminal Value:		71%
Cash & Equivalents	$	9,993
Total Debt:	$	3,610
Noncontrolling Interest		-
Implied Equity Value	**$**	**59,140**
Current Share Price:	$	76.37
Current Shares Outstanding		789
Implied Share Price	**$**	**74.96**
Premium / (Discount) to Current Share Price		**-1.9%**

Terminal Value - Perpetuity Growth Method		
Target Baseline Terminal FCF Growth Rate:		1.0%
Baseline Terminal Value:	$	54,713
Implied Terminal EBIT Multiple:		14x
PV of Terminal Value:	$	34,303
Sum of PV of Free Cash Flows:	$	15,159
Implied Enterprise Value:	**$**	**49,462**
% of Implied TEV from Terminal Value:		69%
Cash & Equivalents	$	9,993
Total Debt:	$	3,610
Noncontrolling Interest		-
Implied Equity Value	**$**	**55,845**
Current Share Price:	$	76.37
Current Shares Outstanding		789
Implied Share Price	**$**	**70.78**
Premium / (Discount) to Current Share Price		**-7.3%**

Our base-case DCF model provides an implied share price range of $70.78 - $74.96 per share, or a roughly -7% haircut from where the stock is currently trading. This compares to sell-side analysts, who largely forecast greater revenue growth and higher margins. Oppenheimer, for example, sees Activision Blizzard trading at over $80 per share post-break.

Final Thoughts

All told, The Microsoft Activation Blizzard merger provides a unique opportunity to capture the upside of a merger arbitrage opportunity with limited downside risk, especially if one is bullish on Activision. If ATVI can successfully maintain its existing franchises while continuing to expand (particularly into mobile gaming), then the company could see share price appreciation beyond that of our current estimates. This deal presents a fascinating case study on the future of antitrust enforcement, and regardless of whether or not arb investors decide to invest, will undoubtedly be worth following.

January 2023 Spotlight Idea: Lions Gate Entertainment (LGF.B) $5.43

Summary

- Lions Gate Entertainment with its valuable library of 17,000 films and TV series is positioned either for an acquisition or spinoff of its studio/library business.
- The library consistently generates around $750 million of revenue. Applying the 5.6x revenue multiple Amazon paid for MGM Studios, Lions Gate is significantly undervalued.
- The company is optimizing costs around its streaming business (formerly Starz+) and has taken several non-cash charges this year including the write down of goodwill.
- The company has a slate of strong films lined up for release in 2023 from its franchises like The Hunger Games and John Wick.
- A cluster of insiders have been buying in recent weeks and they are purchasing both class A voting shares and class B non-voting shares.

Introduction

Over the last decade, we have seen the rise of streaming services and the fall of cable television, with consumers resorting to "cord cutting" or essentially canceling their subscriptions to cable television channels in favor of streaming services like Netflix, Disney+ and Hulu. As of 2021, the video streaming industry was valued at a rich $373.07 billion, with media giants such as Netflix (with a current enterprise value of $141.55 billion) taking a large slice of that pie.

Ramping up a streaming service is incredibly difficult and unprofitable as traditional media companies are starting to realize. In the battle for customer acquisition and retention, content remains king and explains why Amazon was willing to pay $8.5 billion to acquire MGM's studio division. One of the few independent studio companies that is still around is Lions Gate Entertainment, which is especially known for its large and incredibly valuable content library - comprised of over 17,000 films and TV series.

January 2023 Spotlight Idea: Lions Gate Entertainment (LGF.B) $5.43

From Lions Gate's immense content library, standout films include the Hunger Games trilogy, the Twilight series, and the award winning 2016 hit La La Land. The company's slate for 2023, includes a new installment in the John Wick franchise and a prequel to the Hunger Games films. Lions Gate has also produced numerous shows, such as the famous "Orange is the New Black" and "Mad Men". After acquiring Starz in December 2016 for $4.4 billion, the company expanded its streaming content and also acquired Starz's 17 different cable networks.

The company expanded its international presence through Lionsgate+ (formerly known as Starzplay), which offered Starz streaming content to countries outside of the United States. As part of the Starz acquisition deal, it was also announced that Lions Gate Entertainment's stock would be split into two classes of shares with similar economic interest. Class A shares have voting rights and Class B shares are nonvoting shares.

After investing capital for several years to expand its international presence, Lions Gate is now scaling back some of those operations. Lions Gate Entertainment owns Starzplay Arabia, which was launched on April 2, 2015 in various countries in the Middle East. In March 2022, the Middle Eastern company e& (operator of cable channel E-Vision) and investment group ADQ acquired a 57% majority stake in Starzplay Arabia, in a deal valued at $420 million. In November 2022, Lions Gate announced that it would end Lionsgate+ operations in seven different countries internationally, including Japan and Italy.

We've written about Lions Gate Entertainment in the past, when the stock was trading at around $9 a share. Over the course of the pandemic, the stock hit a high of approximately $18. Since then, the stock has consistently declined, and currently sits at $5.43 (for LGF.B) and $5.71 (for LGF.A) - which seems to be an attractive opportunity, especially for insiders such as Mark H. Rachesky (non-executive Chairman of Lions Gate and a non-practicing M.D.) and Gordon Crawford (Chairman of Lions Gate's Strategic Advisory Committee).

Insiders

The first time Lions Gate Entertainment came to our attention in 2019 was due to a series of purchases by Mark Rachesky. Dr. Rachesky, a former protégé of the famous activist investors Carl Icahn, founded his own fund, MHR Fund Management in 1996. Looking at the latest 13F filing for the firm reveals that Lions Gate Entertainment is the largest position in the fund, accounting for 40.45% of the portfolio, with over 35 million shares across both classes of Lions Gate Entertainment. In 2019, Dr. Rachesky purchased $22 million worth of Lions Gate, and early on in the pandemic, he purchased another $4.5 million worth of the stock. His initial pandemic purchases were at around $4.80 and once again when the stock was trading around $7.

January 2023 Spotlight Idea: Lions Gate Entertainment (LGF.B) $5.43

Two years after his last purchase, in November 2022, Dr. Rachesky bought over 800,000 shares of Lions Gate, at an average price of $6.84 for a total of nearly $6 million. And while the stock has declined since his purchases, a cluster of insiders have also started buying shares - including purchases by Director Harry Sloan and CFO James Barge, but more importantly a series of purchases by Director Gordon Crawford.

A prominent figure within the private investment management company Capital Research and Management before retiring from his position as Senior Vice President in 2012, Gordon Crawford is known for taking Capital's Growth fund from $12 million in assets to its peak of over $200 billion. More importantly, Mr. Crawford is famous for being an incredibly influential figure in the media and entertainment sphere, an advisor to the likes of John Malone, Ted Turner (founder of CNN), and Gerald Levin (former CEO of Time-Warner).

Unlike Dr. Rachesky, Mr. Crawford has consistently been buying shares of Lions Gate and adding to his position throughout the pandemic, at prices ranging anywhere from $7 to $15. He purchased shares in November at the same time as Dr. Rachesky for a total of $634,511, at an average price of $6.37 per share. More recently, on December 14th, 2022, Mr. Crawford purchased an additional 100,000 shares of the company for a total of $617,700.

It's worth noting that both Dr. Rachesky and Mr. Crawford both bought Class B shares of Lions Gate, whereas Mr. Sloan and Mr. Barge chose to buy Class A shares.

While it is encouraging to see all this insider buying by long-standing insiders with deep industry and capital markets experience, the company remains operationally challenged.

The Business

Lions Gate has undergone many changes in the last decade, and many of those changes were not positive including the rejection of a very lucrative acquisition offer and the purchase of Starz for $4.4 billion. Hasbro made an offer to purchase Lions Gate for $40 a share in 2017, and at the time, Chairman Mark Rachesky believed that the offer was not high enough. The stock now trades at a little over $5, a fraction of what Hasbro offered just 5 years ago. In 2018, Michael Burns, the Vice Chairman of Lions Gate claimed that since the company had a $7 billion market cap they were now a "pint-sized bite for some of these giant market cap companies," essentially hinting the company was open to an acquisition. According to Mr. Burns, their "job is to create shareholder value" and to "enhance shareholder value." The bitter irony reveals itself when we find that four years later, Lions Gate's market cap has dropped to $1.27 billion and its enterprise value is $3.45 billion. While this year's bear market has contributed to the stock's fall, taking a closer look at the company's financials gives us more information about why investors have given up on the company.

January 2023 Spotlight Idea: Lions Gate Entertainment (LGF.B) $5.43

Lions Gate gets its revenue from three different sources: their Motion Picture segment, Television Production segment, and Media Networks segment. For the fiscal year 2022 (ended on March 31, 2022 for Lions Gate), each segment listed above contributed to 32.9%, 42.5%, and 42.6% of the revenue respectively. These don't add up to a total of 100% because of 18% revenue overlap between segments. The Motion Pictures business is composed of revenues derived from theatrical film releases, the sale or rental of films to all sorts of streaming and media platforms, and revenue from international licensing. The Television Production segment is made up of revenue derived from the licensing of Lions Gate's series to television networks, the sale or rental of those series to and through digital media platforms, and international licensing related to the series. Lastly, the Media Networks segment is comprised of revenues related to the Starz service, both the Starz Networks and Starzplay International.

On a year over year basis, total revenue for Lions Gate grew by 10.2% from fiscal 2021 to the fiscal 2022. Revenue for Lions Gate's Television Production business increased by 84.1% YOY, revenue for the Motion Pictures segment grew by 9.6%, and the Media Networks segment saw revenue decrease by 1.7%. However, expenses grew by 15.9% which contributed to operating income decreasing by around 95% - from $170.6 million in 2021 to $9 million in 2022. As a result, Lions Gate Entertainment's ended up incurring a net loss, of $188.2 million in 2022, much larger than the $18.9 million net loss in 2021. Lions Gate did report that the total number of subscribers to the various Starz services increased YOY, from 29.5 million in fiscal 2021 to 35.8 in fiscal 2022.

Looking at more recent financials, such as the Q2 2023 results (ended September 30, 2022) shows that the situation hasn't improved, and revenue for Q2 2023 decreased by 1.4% when compared to Q2 2022 - a small change from $887.8 million to $875.2 million. Revenue for the Television Production and Media Networks segments grew 28.2% and 3% respectively, but revenue for the Motion Pictures segment declined by 32.3%. However, total expenses increased significantly, from $858 million in Q2 2022 to $2.62 billion in Q2 2023, an increase of over 205%. As a result, the company posted an operating loss of $1.74 billion in Q2 2023 compared to the operating income of $29.8 million in Q2 2022, and Lions Gate ended up incurring a net loss of $1.8 billion for the quarter.

A large portion of this loss was due to a goodwill writedown related to the Starz services of $1.475 billion. For Lions Gate Entertainment, goodwill is not amortized but is instead evaluated on a yearly basis to see if the fair value of the goodwill or other indefinite-lived intangible asset is less than its carrying value. The operating loss prior to this goodwill charge was $53.7 million. It's also worth noting that Lions Gate's library generated revenue of $747 million TTM and $210 million for Q2 2023.

January 2023 Spotlight Idea: Lions Gate Entertainment (LGF.B) $5.43

Another aspect that has definitely impacted Lions Gate Entertainment's business is the acquisition of Starz in 2016 and the company's somewhat uncertain plans for the future of the Starz business. When we initially wrote about Lions Gate, we talked about a possible spinoff of the Starz business in order to alleviate some of the debt Lions Gate had accumulated. In May 2022, it was announced that Lions Gate had plans to spinoff the entire Starz business, though they later changed that decision in September to spinning the studio business out of Starz. Investors are yet to hear about how or when this spinoff is likely to happen.

Conclusion

Lions Gate is a business in flux that either needs to be broken through a spinoff of its profitable divisions or a wholesale acquisition of the company. The company appears to be open to both options but we are not seeing much progress on either front. The recent insider purchases appear to indicate that the insiders are not as pessimistic about its future prospects as the overall market.

On March 17th, 2022, Amazon completed its $8.45 billion acquisition of Metro-Goldwyn-Mayer (MGM). Amazon paid 5.6 times MGM's $1.5 billion in 2021 revenue for the acquisition. Considering Lions Gate generates around $750 million in annual revenue just from its library, using the 5.6 times acquisition number from Amazon's purchase of MGM, the company appears to be significantly undervalued.

I think we are likely to see a transaction for the company in the next few months and we get to pick up the company at a nice discout to what insiders were willing to pay for the company.

I am going to add Lions Gate to the model portfolio at our full position size ($5,000) and will also be adding to my person position after this newsletter is published.

MODEL PORTFOLIO

Saturday, December 31, 2022

Long Stock Positons

	Symbol	Quote	Daily Change	Number of Shares	Cost	Current Value	Diff ($)	Diff (%)	Date Added
+	AI	$11.19	$0.29 (2.66%)	192@13.04	$2,504	$2,148	$-355	-14.19%	12/14/2022
+	NRDY	$2.25	$0.05 (2.27%)	1185@2.11	$2,500	$2,666	$166	6.64%	11/30/2022
+	LUMN	$5.22	$-0.08 (-1.51%)	457@5.47	$2,500	$2,386	$-114	-4.57%	11/30/2022
+	MNTV	$7	$0.08 (1.16%)	644@7.76	$4,997	$4,508	$-489	-9.79%	10/31/2022
+	ATVI	$76.55	$-0.21 (-0.27%)	34@74.34	$2,528	$2,603	$75	2.97%	09/30/2022
+	SAVE	$19.48	$-0.16 (-0.81%)	220@22.68	$4,990	$4,286	$-704	-14.11%	08/31/2022
+	ONEM	$16.71	$0.07 (0.42%)	295@16.94	$4,997	$4,929	$-68	-1.36%	07/29/2022
+	KIND	$2.06	$0.00 (0.00%)	755@3.31	$2,499	$1,555	$-944	-37.76%	06/30/2022
+	FCX	$38	$-0.31 (-0.81%)	123@40.55	$4,988	$4,674	$-314	-6.29%	04/29/2022
+	CNNE	$20.65	$0.14 (0.68%)	107@23.4	$2,504	$2,210	$-294	-11.75%	04/18/2022
+	TWLO	$48.96	$0.85 (1.77%)	15@169.5	$2,543	$734	$-1,808	-71.12%	04/01/2022
+	TGNA	$21.19	$-0.08 (-0.38%)	224@22.35	$5,006	$4,747	$-260	-5.19%	03/14/2022
+	FHN	$24.5	$0.01 (0.04%)	215@23.3	$5,009	$5,268	$258	5.15%	03/14/2022
+	TSEM	$43.2	$-0.04 (-0.09%)	106@47.14	$4,997	$4,579	$-418	-8.36%	03/14/2022
+	DOCS	$33.56	$-0.30 (-0.89%)	44@45.57	$2,005	$1,477	$-528	-26.36%	01/31/2022
+	VIRT	$20.41	$-0.27 (-1.31%)	177@28.18	$4,988	$3,613	$-1,375	-27.57%	11/30/2021
+	MX	$9.39	$0.25 (2.74%)	272@18.38	$4,999	$2,554	$-2,445	-48.91%	10/29/2021
+	FANG	$136.78	$0.50 (0.37%)	53@94.67	$5,018	$7,249	$2,232	44.48%	09/30/2021
+	JEF	$34.28	$-0.29 (-0.84%)	90@33.19	$2,987	$3,085	$98	3.28%	07/30/2021
+	COUR	$11.83	$0.07 (0.60%)	140@38.175	$5,344	$1,656	$-3,688	-69.01%	04/30/2021
+	SSSS	$3.8	$-0.07 (-1.81%)	369@13.55	$5,000	$1,402	$-3,598	-71.96%	03/31/2021
+	VRTX	$288.78	$-0.30 (-0.10%)	22@227.75	$5,011	$6,353	$1,343	26.80%	11/30/2020
+	RILY	$34.2	$-0.15 (-0.44%)	139@26.78	$3,722	$4,754	$1,031	27.71%	08/31/2020
+	GILD	$85.85	$0.59 (0.69%)	66@76.14	$5,025	$5,666	$641	12.75%	06/30/2020

MODEL PORTFOLIO UPDATES

Short Stock Positons

	Symbol	Quote	Daily Change	Number of Shares	Cost	Current Value	Diff ($)	Diff (%)	Date Added
+	TOL	$49.92	$-0.49 (-0.97%)	58@43.08	$2,499	$2,895	$-397	-15.88%	10/31/2022
+	NRGV	$3.12	$0.37 (13.45%)	180@13.89	$2,500	$562	$1,939	77.54%	04/29/2022
+	GME	$18.46	$0.13 (0.71%)	24@41.25	$990	$443	$547	55.25%	04/01/2022
+	CDRO	$2.58	$-0.07 (-2.64%)	303@6.61	$2,003	$782	$1,221	60.97%	01/31/2022
Cash and Active Position Returns						**$24,007**	**$-4,014**	**-3.84%**	
Total Portfolio Value and Returns **						**$120,410**	**$20,410**	**20.41%**	

December was a challenging month and I turned prematurely bullish when I wrote the following in our last Special Situations newsletter,

Even before Fed Chair Jay Powell's speech on November 30th that triggered a 4.41% rally in the Nasdaq, I was starting to think that it might be time to start turning risk back on. It is likely that I am early in increasing exposure to risk but I would rather be early and endure some short- term drops than continue to stay out and miss amazing opportunities like I did in 2009 by staying bearish longer than I should have. Toward that end, the spotlight ideas in this newsletter, are further out on the risk spectrum than I have ventured in several months.

Both spotlight ideas are informed by strategies we follow including insider transactions and stock buybacks. To mitigate the impact of volatility, I will build positions in these companies over several trades instead of going all in at once.

On account of those new positions and overall market weakness in beaten down names that were likely sold in December for tax loss harvesting, the model portfolio dropped 4.52% in December compared to a 5.90% drop in the S&P 500 and a 8.73% drop in the Nasdaq. This follows an 8.15% gain in October and a 1.7% gain in November.

I am going to start a new position in Lions Gate (LGF.B) class B shares this month at our full position size ($5,000) and will also add to our positions in C3.ai (AI) and Lumen Technologies (LUMN), to build them up to full positions.

MODEL PORTFOLIO UPDATES

B. Riley Financial, Inc. (RILY)

Shares of B. Riley Financial were acquired by 5 insiders in the month of December:

- Chairman and Co-CEO Bryant R. Riley acquired 261,605 shares, paying $40.47 per share for a total amount of $10.59 million.
- Director Michael Joseph Sheldon acquired 10,026 shares, paying $39.86 per share for a total amount of $399,627.
- Director Randall E. Paulson acquired 2600, shares, paying $42.84 per share for a total amount of $111,375.
- Director Tamara Sue Brandt acquired 625 shares, paying $32.01 per share for a total amount of $20,006.
- Director Renee E. Labran acquired 247 shares, paying $40.40 per share for a total amount of $9,978.

Vertex Pharmaceuticals (VRTX)

On December 12, 2022, the US FDA cleared an investigational new drug (IND) application from Vertex Pharmaceuticals for VX-522, an mRNA candidate for cystic fibrosis.

Gilead Sciences, Inc. (GILD)

On December 22, 2022, Gilead Sciences announced that the FDA approved its HIV capsid inhibitor, Sunlenca, in combination with other antiretrovirals for the treatment of adults with multi-drug resistant (MDR) HIV-1 infection. The company also announced that Gilead's Kite Pharma and Japanese pharmaceutical giant Daiichi Sankyo were changing their licensing agreement related to Yescarta® CAR T-Cell therapy in Japan. Marketing authorization for Yescarta will be transferred to a Gilead Sciences subsidiary in the country.

On December 27, 2022, Jounce Therapeutics (JNCE) announced that it is receiving $67M from Gilead Sciences in exchange for giving up rights to its phase 1 cancer immunotherapy GS-1811 (formerly JTX-1811).

Jefferies Financial Group Inc. (JEF)

On December 16, 2022, Jefferies Financial Group Inc. (JEF) announced that it is spinning off shares of Vitesse Energy to its shareholders with a record date of December 27, 2022. For every 8.49668 Jefferies Common Shares owned as of the record date, shareholders will receive one share of Vitesse Common Stock. We will analyze the spinoff and make a decision in the next fe whether to hold the spinoff in the model portfolio or dispose of it.

MODEL PORTFOLIO UPDATES

Activision Blizzard, Inc. (ATVI)

- On December 8, 2022, The Federal Trade Commission sued to block Activision Blizzard's (ATVI) planned acquisition by Microsoft (MSFT).
- On December 20, 2022, The European Commission said it was opening an in-depth investigation into Microsoft's acquisition of Activision Blizzard on fears that the deal may "significantly reduce competition."
- On December 22, 2022, Microsoft (MSFT) filed a rebuttal to a Federal Trade Commission lawsuit aimed at blocking the software giant's purchase of Activision Blizzard (ATVI) saying the deal will not hurt competition in the videogaming industry.
- On December 29, 2022, The FNE (Fiscalía Nacional Económica) Chile approved in Phase 1 the merger operation consisting of the acquisition of control of Activision Blizzard (ATVI) by Microsoft Corporation (MSFT), after ruling out that it is apt to substantially reduce competition.
- On December 30, 2022, a judge set January 3, 2023, for the first pre-trial hearing in the Biden administration's case against Microsoft (MSFT) over its bid to take over Activision Blizzard (ATVI).

TEGNA Inc. (TGNA)

On December 19, 2022, Standard General issued a statement regarding its pending acquisition of TEGNA (TGNA), stating that it has committed to waiving certain contractual rights it would have had as a result of the transaction.

On December 23, 2022, regulators asked for additional comments on Standard General's proposed purchase of Tegna (TGNA) after the hedge fund agreed to make concessions to get the deal done. The Federal Communications Commission said in a notice Friday that it wants comments by January 13 on recent letters Standard General sent the regulator.

Tower Semiconductor Ltd. (TSEM)

On December 14, 2022, SeekingAlpha reported that Intel (INTC) and Tower Semiconductor (TSEM) are said to be reviewing potentially asking China for a clock suspension in the antitrust regulator's review of the acquisition of Tower. The parties are still most likely to pull and refile the deal with China's State Administration for Marker Regulation.

Momentive Global Inc. (MNTV)

On December 12, 2022, Momentive (MNTV) announced that Rich Sullivan will join its leadership team as Chief Financial Officer.

MODEL PORTFOLIO UPDATES

Spirit Airlines, Inc. (SAVE)

On December 14, 2022, Spirit (SAVE) and JetBlue (JBLU) each received a request for additional information and documentary material (the “Second Request”) from the Antitrust Division of the Department of Justice pursuant to the HSR Act, on September 12, 2022. On December 12, 2022, the companies certified substantial compliance with the Second Request.

C3.ai, Inc. (AI)

On December 8, 2022, C3.ai announced financial results for its fiscal second quarter. Total revenue for the quarter was $62.4 million, an increase of 7% compared to $58.3 million one year ago. Subscription revenue for the quarter was $59.5 million, an increase of 26% compared to $47.4 million one year ago.

SuRo Capital Corp. (SSSS)

Shares of SuRo Capital were acquired by 2 insiders in the month of December:

- Chairman, Chief Executive Officer and President Mark D. Klein acquired 79,600 shares, paying $3.72 per share for a total amount of $296,156.
- Chief Financial Officer, Chief Compliance Officer, Treasurer and Corporate Secretary Allison Green acquired 12,908 shares, paying $3.77 per share for a total amount of $48,696.

Short Positions

GameStop Corp. (GME)

On December 7, 2022, GameStop announced its third quarter financial results. Net sales were $1.186 billion, compared to $1.297 billion in the prior year's third quarter. Inventory was $1.131 billion at the close of the period, compared to $1.141 billion at the close of the prior year's third quarter. The company posted a $0.31 per share loss on $1.19B in sales for its fiscal third quarter, reflecting an 8.5% year over year decline.

MONTHLY M&A OVERVIEW

There were 13 new deals announced in the month of December for a total deal value of over $57.32 billion.

NEW DEALS

- The merger of Salisbury Bancorp (SAL) with NBT Bancorp (NBTB) for $204 million in an all stock deal.
- The acquisition of Vivint Smart Home (VVNT) by NRG Energy (NRG) for $5.2 billion or $12 per share in cash.
- The acquisition of Horizon Therapeutics Public Limited Company (HZNP) by Amgen (AMGN) for $28.3 billion.
- The acquisition of Coupa Software Incorporated (COUP) by Thoma Bravo for $8 billion.
- The acquisition of Weber (WEBR) by BDT Capital Partners LLC for $3.7 billion.
- The acquisition of Malvern Bancorp (MLVF) by First Bank (FRBA) for $149.5 million in a cash plus stock deal.
- The merger of The Community Financial Corporation (TCFC) and Shore Bancshares (SHBI) for $254.4 million in an all stock merger of equals.
- The acquisition of Maxar Technologies (MAXR) by Advent International for $6.4 billion.
- The acquisition of Trean Insurance Group (TIG) by Altaris Capital Partners for $316 million.
- The acquisition of Aerojet Rocketdyne Holdings (AJRD) by L3Harris Technologies (LHX) for $4.7 billion.
- The acquisition of Qumu Corporation (QUMU) by Enghouse Systems for $6.69 million
- The acquisition of IsoPlexis Corporation (ISO) by Berkeley Lights (BLI) for $57.8 million in an all stock deal.
- The acquisition of China Index Holdings Limited (CIH) by CIH Holdings Limited in a ‘going-private’ transaction for $26.68 million.

MONTHLY M&A OVERVIEW

COMPLETED DEALS

Fifteen active deals were successfully completed in the month of December.

- The acquisition of Applied Genetic Technologies Corporation (AGTC) by Syncona Limited on December 1, 2022.
- The acquisition of Akouos (AKUS) by Eli Lilly and Company (LLY) on December 1, 2022.
- The acquisition of Renovacor (RCOR) by Rocket Pharmaceuticals (RCKT) on December 1, 2022.
- The acquisition of Flagstar Bancorp (FBC) by New York Community Bancorp (NYCB) on December 1, 2022.
- The acquisition of Switch (SWCH) by DigitalBridge Group (DBRG) on December 6, 2022.
- The acquisition of CarLotz (LOTZ) by Shift Technologies (SFT) on December 9, 2022.
- The acquisition of Turquoise Hill Resources (TRQ) by Rio Tinto (RIO) on December 16, 2022. It took 101 days for this deal to be completed.
- The acquisition of BTRS Holdings (BTRS) by EQT on December 16, 2022.
- The acquisition of RealNetworks (RNWK) by CEO Rob Glaser on December 21, 2022. It took 146 days for this deal to be completed.
- The acquisition of Abiomed (ABMD) by Johnson & Johnson (JNJ) on December 22, 2022.
- The acquisition of Hill International (HIL) by Global Infrastructure Solutions on December 27, 2022
- The acquisition of Archaea Energy (LFG) by BP p.l.c. (BP) on December 28, 2022.
- The acquisition of Brigham Minerals (MNRL) by Sitio Royalties (STR) on December 29, 2022.
- The acquisition of Emclaire Financial (EMCF) by Farmers National Banc Corp. (FMNB) on December 30, 2022.
- The acquisition of PCSB Financial Corporation (PCSB) by Brookline Bancorp (BRKL) on December 30, 2022.

MONTHLY M&A OVERVIEW

DEALS FACING HURDLES

- December 1, 2022: According to the New York Post, a rift has emerged at the Federal Trade Commission over Microsoft's (MSFT) deal to acquire Activision (ATVI) .
- December 6, 2022: Bloomberg reported that Kroger's (KR) acquisition of Albertsons (ACI) will face an in-depth review by the Federal Trade Commission.
- On December 7, 2022, Bloomberg reported that Microsoft (MSFT) executives are set to meet with US Federal Trade Commission Chair Lina Khan and other commissioners on Wednesday to make its final case in favor of its deal to buy Activision Blizzard (ATVI).
- On December 8, 2022, The Wall Street Journal reported that the Federal Trade Commission has sued to block Activision Blizzard's (ATVI) planned acquisition by Microsoft (MSFT).
- On December 8, 2022, Colorado's attorney general urged a Washington state court judge to block a $4 billion dividend proposed to be paid to shareholders ahead of the merger of Kroger (KR) and Albertsons (ACI).
- ForgeRock (FORG) indicated in a filing that an unidentified strategic buyer was recently considering making an offer for the company.
- December 9, 2022: The Wall Street Journal reported that Microsoft (MSFT) had been working for close to a year to calm regulators' concerns about its acquisition of Activision Blizzard (ATVI), but the Federal Trade Commission's suit to block the deal raised doubts about the company's pledge not to shut out rivals.
- December 9, 2022: According to Reuters, Broadcom (AVGO) is set to face a setback in its bid for VMware (VMW) with EU antitrust regulators poised to open a full-scale investigation into the deal.
- On December 10, 2022, Albertsons Companies (ACI) said that Washington State Court had denied a request of preliminary injunction by the state's Attorney General to prevent the company from paying $4 billion to shareholders in a special dividend.
- December 13, 2022: According to Reuters, the attorneys general of California, Illinois and Washington D.C., said they would appeal a federal court's refusal to temporarily prevent Albertsons Companies (ACI) from paying a $4 billion dividend to shareholders.
- On December 14, 2022, SeekingAlpha reported that Intel (INTC) and Tower Semiconductor (TSEM) are said to be reviewing potentially asking China for a clock suspension in the antitrust regulator's review of the acquisition of Tower. The parties are still most likely to pull and refile the deal with China's State Administration for Marker Regulation.
- On December 14, 2022, Belgium's Saverys family called for an end to the plan to combine tanker giants Euronav (EURN) and Frontline (FRO).

MONTHLY M&A OVERVIEW

DEALS FACING HURDLES

- On December 19, 2022, Bloomberg reported that, Luxor Capital Group, a top Ritchie Bros. Auctioneers (RBA) shareholder, which owns about 3.6% of Ritchie Bros. shares is opposing a takeover of IAA Inc. (IAA), a business it calls “distinctly inferior.” Luxor also said that an 18% drop in the company’s share price since the deal was announced Nov. 7 indicates investors’ “clear distaste” for the transaction.
- December 20, 2022, According to Reuters, European antitrust regulators have opened an in-depth investigation into Broadcom’s (AVGO) proposed bid for VMware (VMW).
- On December 21, 2022, Albertsons Companies (ACI) announced that on December 19, 2022, the State of Washington Supreme Court set February 9, 2023 as the date for the review of the temporary restraining order (“TRO”) against the company’s previously announced $6.85 per common share Special Dividend.
- On December 21, 2022, Congresswoman Maxine Waters (D-CA) urged the FTC to conduct a robust review of Intercontinental Exchange’s (ICE) planned purchase of Black Knight (BKI).
- On December 22, 2022, ForgeRock (FORG) and Thoma Bravo each received a request for additional information (the “Second Request”) from the Department of Justice in connection with the DOJ’s review of the merger.
- December 22, 2022: According to The Wall Street Journal, Microsoft (MSFT) filed a rebuttal to a Federal Trade Commission lawsuit aimed at blocking the software giant’s purchase of Activision Blizzard (ATVI) saying the deal will not hurt competition in the videogaming industry.
- December 23, 2022: According to Bloomberg, regulators have asked for additional comments on Standard General’s proposed purchase of Tegna (TGNA) after the hedge fund agreed to make concessions to get the deal done. The Federal Communications Commission said in a notice Friday that it wants comments by January 13 on recent letters Standard General sent the regulator.
- On December 29, 2022, The Committee on Foreign Investment in the United States issued an order preventing the consummation of the transactions pursuant to the merger agreement between F-star Therapeutics (FSTX) and invoX Pharma, citing unresolved national security risks. invoX has extended the tender offer to December 30, 2022.
- On December 30, 2022, F-star Therapeutics (FSTX) and invoX Pharma extended the tender offer to January 17, 2023. The End Date of the Merger Agreement has been extended to January 31, 2023.
- December 30, 2022: Canada’s antitrust regulator plans to appeal a decision by a Canadian court that allowed a proposed merger between Rogers Communications (RCI) and Shaw Communications (SJR) to proceed. The Competition Bureau has filed a notice to appeal the decision with a Canadian appellate court.

MONTHLY M&A OVERVIEW

POTENTIAL DEALS IN THE WORKS

Seven new potential deals were added to the ‘Deals In The Works‘ section in the month of December.

- On December 6, 2022, Bloomberg reported that Vince Holding (VNCE) a New York-based fashion brand, is exploring options including a sale.
- On December 8, 2022, ForgeRock (FORG) notified in a filing that an unidentified strategic buyer was recently considering making an offer.
- On December 8, 2022, Partners Bancorp (PTRS) announced that John W. Breda, CEO and Lloyd B. Harrison, III, former CEO, and current Senior Executive Vice President will work together on the company’s review of all strategic alternatives available to the company to enhance returns to shareholders and other special strategic projects.
- On December 15, 2022, Idaho Strategic Resources (IDR) submitted a non-binding proposal to WWR management to acquire all of the outstanding shares of common stock of Westwater Resources (WWR).
- On December 20, 2022, iClick Interactive Asia (ICLK) received a preliminary non-binding bid from a consortium of company insiders to acquire all ordinary shares and American depositary shares for $4.0672 per ADS in cash, or $0.81344 per ordinary share.
- On December 29, 2022, J. Hale Hoak, on behalf of Hoak & Co, sent a letter to the Board of Directors of Natural Gas Services Group (NGS) to cease any search process for a new chief executive officer and to commence a review of strategic alternatives.
- On December 30, 2022, Swvl Holdings Corp (SWVL), a global provider of transformative tech-enabled mass transit solutions, announced the formation of a special committee comprised of independent directors of the Company’s Board of Directors to explore and evaluate potential strategic alternatives that may be available to the company.

SPAC Arbitrage

Three SPAC IPOs were filed in the month of December raising $180 million of capital.

SPAC Business Combinations

Twenty Four SPAC Business Combinations were announced in the month of December.

- The Flexi Group Holdings and TG Venture Acquisition Corp. (TGVC)
- X Energy Reactor Company and Ares Acquisition Corporation (AAC)
- Infrared Cameras Holdings, Inc. and SportsMap Tech Acquisition Corp. (SMAP)
- Tigo Energy and Roth CH Acquisition IV Co. (ROCG)
- MNG Airlines and Golden Falcon Acquisition Corp. (GFX).
- Australian Oilseeds Investments Pty Ltd. and EDOC Acquisition Corp. (ADOC)
- Banzai International and 7GC & Co. Holdings Inc. (VII)
- Modulex Modular Buildings and PHP Ventures Acquisition Corp. (PPHP)
- Heritage Distilling Holding Company and Better World Acquisition Corp. (BWAC)
- QT Imaging and GigCapital5 (GIA)
- Infinite Reality and Newbury Street Acquisition Corporation (NBST)
- Lifezone Metals and GoGreen Investments (GOGN).
- Wellous Group Limited and Kairous Acquisition Corp. Limited (KACL)
- AEON Biopharma and Priveterra Acquisition Corp. (PMGM)
- Mobile Infrastructure Corp. and Fifth Wall Acquisition Corp. III (FWAC)
- NET Power and Rice Acquisition Corp. II (RONI)
- DarkPulse and Global System Dynamics (GSD).
- Greenfire Resources and M3-Brigade Acquisition III Corp. (MBSC)
- Unique Logistics International and Edify Acquisition Corp. (EAC).
- Sparks Energy and 10X Capital Venture Acquisition Corp. III (VCXB)
- Rain Enhancement Technologies and dMY Technology Group, Inc. VI (DMYS)
- Caspi Oil Gas and Liberty Resources Acquisition Corp. (LIBY)
- LE Worldwide Limited and Ace Global Business Acquisition Limited (ACBA)
- Noco-Noco and Prime Number Acquisition I Corp. (PNAC)

SPAC Arbitrage

SPAC Business Combinations Completed

Six SPAC Business Combinations were completed in the month of December.

- On December 9, 2022, Getaround (GETR) announced that it has completed its previously announced business combination with InterPrivate II Acquisition Corp.
- On December 13, 2022, Venus Acquisition Corporation closed the previously announced business combination with VIYI Algorithm. As part of the transaction, the company changed its name to “MicroAlgo Inc.” As a result, the company expects that its ordinary shares will begin trading on The Nasdaq Capital Market under the ticker symbol (MLGO), starting on or about December 13, 2022.
- On December 13, 2022, ZyVersa Therapeutics (ZVSA) and Larkspur Health Acquisition Corp. announced the closing of their previously announced business combination.
- On December 16, 2022, Pacifico Acquisition Corp. and Caravelle Group (CACO) announced the completion of their previously announced business combination.
- On December 19, 2022, MariaDB (MRDB) announced the completion of its previously announced business combination with Angel Pond Holdings Corporation.
- On December 20, 2022, ECARX Holdings (ECX) and COVA Acquisition Corp., announced the completion of their previously announced business combination.

SPAC Business Combinations Terminated

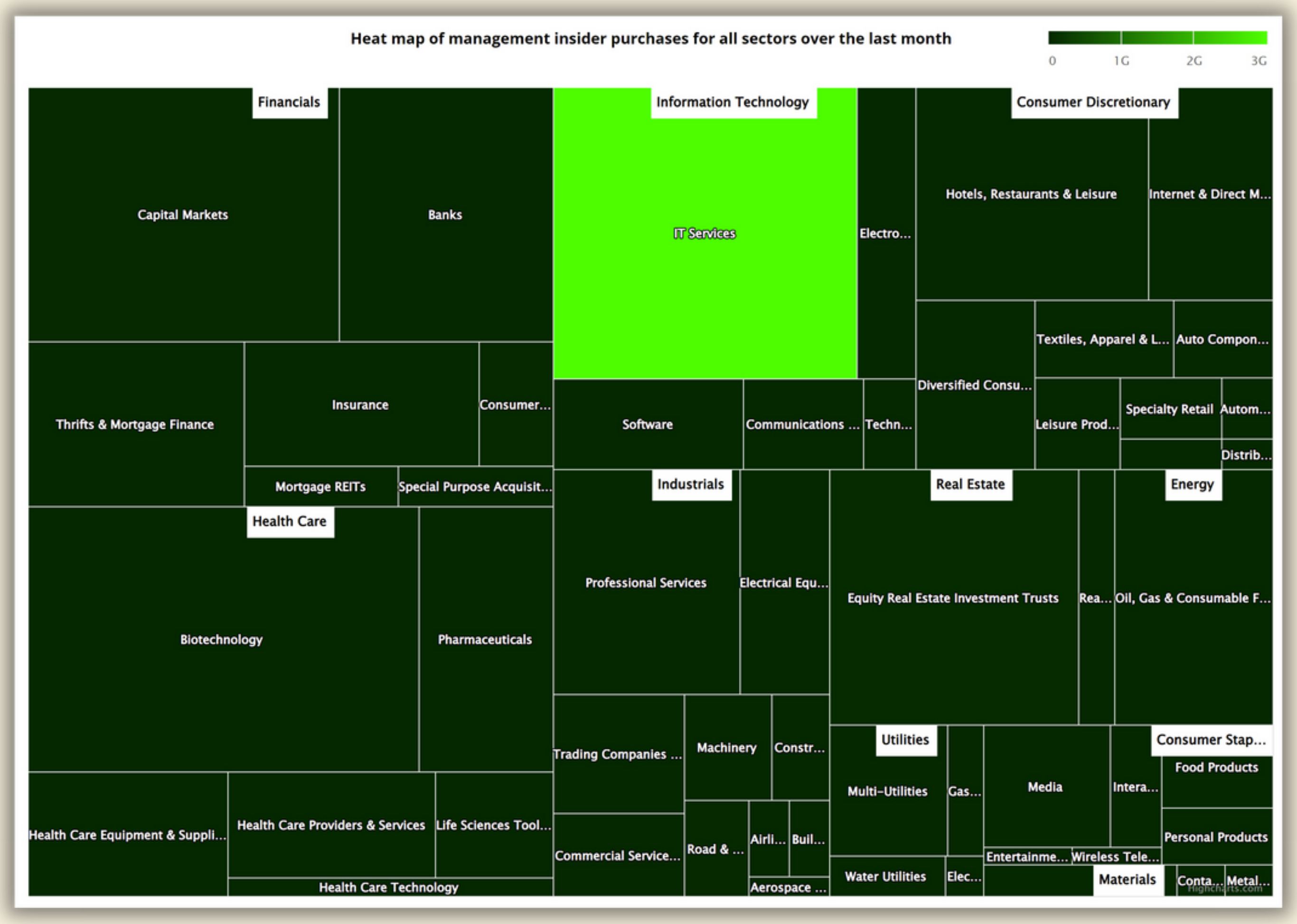
Seven SPAC Business Combinations were terminated in the month of December.

- On December 5, 2022, Circle Internet Financial and Concord Acquisition (CND) announced the mutual termination of their proposed business combination.
- On December 5, 2022, Footprint and Gores Holdings VIII (GIIX) mutually agreed to terminate their previously announced merger agreement effective immediately.
- On December 6, 2022, Intrinsic Medicine, Inc. and Phoenix Biotech Acquisition Corp. (PBAX) announced the mutual termination of their previously announced business combination agreement due to current market conditions.
- On December 12, 2022, Americas Technology Acquisition Corp. (ATA) mutually agreed to terminate the previously announced Agreement and Plan of Merger with Rally Communitas Corp.
- On December 16, 2022, Aries I Acquisition Corp. (RAM) terminated its combination agreement with metaverse technology firm Infinite Assets.
- On December 22, 2022, Far Peak Acquisition Corporation (FPAC) and Bullish mutually agreed to terminate their proposed business combination.
- On December 27, 2022, SPK Acquisition (SPK) terminated its Merger Agreement With Varian Biopharmaceuticals.

INSIDER ACTIVITY BY SECTOR AND TOP TRANSACTIONS

The sector heat map below shows insider purchases in December by company management (CEOs, CFOs, etc.) and excludes any insider purchases by 10% owners or directors. As premium subscribers, you can pull up our online insider heat map and drill down to view specific insider purchases for a particular industry. During the month of December, the Information Technology sector had the most purchases.

In the next few pages we have highlighted ten companies that had the most insider buying and insider selling in December.



TOP 10 INSIDER BUYS - NOVEMBER 2022

Owner	Relationship	Cost	Shares	Value
1. Iovance Biotherapeutics, Inc. (IOVA): $6.39				**Sector: Health Care**
Wayne P. Rothbaum	Director	$6.50	10,000,000	$65,000,000
Merrill A. McPeak	Director	$6.15	10,000	$61,500
Total Purchased by all Insiders of Iovance Biotherapeutics, Inc.				**$65,061,500**
2. U-Haul Holding Company (UHAL): $60.19				**Sector: Industrials**
Edward J. Shoen	President	$64.97	248,300	$16,132,388
Total Purchased by all Insiders of U-Haul Holding Company				**$16,132,388**
3. Datadog, Inc. (DDOG): $75.78				**Sector: Information Technology**
Matthew Jacobson	Director	$69.45	211,856	$14,714,151
Total Purchased by all Insiders of Datadog, Inc.				**$14,714,151**
4. B. Riley Financial, Inc. (RILY): $34.2				**Sector: Financials**
Bryant R. Riley	Chairman and Co-CEO	$40.47	261,605	$10,586,007
Michael Joseph Sheldon	Director	$39.86	10,026	$399,627
Randall E. Paulson	Director	$42.84	2,600	$111,375
Tamara Sue Brandt	Director	$32.01	625	$20,006
Renee E. Labran	Director	$40.40	247	$9,978
Total Purchased by all Insiders of B. Riley Financial, Inc.				**$11,127,268**
5. SoFi Technologies, Inc. (SOFI): $4.61				**Sector: Financials**
Anthony Noto	Chief Executive Officer	$4.47	1,659,065	$7,420,480
Total Purchased by all Insiders of SoFi Technologies, Inc.				**$7,420,480**

TOP 10 INSIDER BUYS - NOVEMBER 2022

Owner	Relationship	Cost	Shares	Value
6. Ivanhoe Electric Inc. (IE): $12.15				**Sector: Materials**
Robert M. Friedland	Executive Chairman	$9.85	422,767	$4,164,255
Total Purchased by all Insiders of Ivanhoe Electric Inc.				**$4,164,255**
7. G-III Apparel Group, Ltd. (GIII): $13.71				**Sector: Consumer Discretionary**
Morris Goldfarb	CEO	$12.54	250,000	$3,135,000
Jeffrey David Goldfarb	Executive Vice President	$12.96	19,000	$246,240
Amigo Victor Herrero	Director	$12.20	10,270	$125,294
Total Purchased by all Insiders of G-III Apparel Group, Ltd.				**$3,506,534**
8. Global Indemnity Group, LLC (GBLI): $23.31				**Sector: Financials**
Gary Charles Tolman	Director	$24.16	139,151	$3,362,510
Seth Gersch	Director	$23.40	4,000	$93,600
Total Purchased by all Insiders of Global Indemnity Group, LLC				**$3,456,110**
9. National Storage Affiliates Trust (NSA): $36.12				**Sector: Real Estate**
Chad Leroy Meisinger	Director	$39.11	55,000	$2,151,050
Arlen Dale Nordhagen	Executive Chairman	$36.76	33,500	$1,231,315
Total Purchased by all Insiders of National Storage Affiliates Trust				**$3,382,365**
10. BRT Apartments Corp. (BRT): $19.64				**Sector: Real Estate**
Jeffrey Gould	President and CEO	$19.89	97,038	$1,930,103
Louis C. Grassi	Director	$19.74	2,000	$39,470
Total Purchased by all Insiders of BRT Apartments Corp.				**$1,969,738**

TOP 10 INSIDER SALES - NOVEMBER 2022

Owner	Relationship	Cost	Shares	Value
1. Tesla, Inc. (TSLA): $194.7				**Sector: Consumer Discretionary**
Elon Musk	CEO	$162.81	21,995,000	$3,581,065,577
Andrew D. Baglino	SVP Powertrain and Energy Eng.	$124.23	11,812	$1,467,382
Zachary Kirkhorn	Chief Financial Officer	$181.85	11,334	$2,061,138
Vaibhav Taneja	Chief Accounting Officer	$178.07	3,768	$670,979
Total Sold by all Insiders of Tesla, Inc.				**$3,585,257,704**
2. Walmart Inc. (WMT): $151.81				**Sector: Consumer Staples**
Robson S. Walton	Director	$148.91	5,094,500	$758,636,787
Douglas C. McMillon	President and CEO	$143.82	9,708	$1,396,202
John R. Furner	Executive Vice President	$144.81	4,375	$633,544
Total Sold by all Insiders of Walmart Inc.				**$760,669,681**
3. PTC Inc. (PTC): $120.04				**Sector: Information Technology**
Blake D. Moret	Director	$122.56	725,281	$88,891,517
James E. Heppelmann	President and CEO	$122.56	15,000	$1,838,465
Kristian Talvitie	EVP, Chief Financial Officer	$127.49	8,553	$1,090,385
Total Sold by all Insiders of PTC Inc.				**$91,820,127**
4. Airbnb, Inc. (ABNB): $85.5				**Sector: Consumer Discretionary**
John L. Ocampo	Director	$68.72	1,135,154	$78,002,245
Stephen G. Daly	President and CEO	$65.38	120,100	$7,851,672
Total Sold by all Insiders of Airbnb, Inc.				**$46,669,887**
5. AppLovin Corporation (APP): $10.53				**Sector: Information Technology**
Arash Adam Foroughi	CEO & Chairperson	$11.15	2,242,000	$24,987,275
Vasily Shikin	Chief Technology Officer	$14.11	412,858	$5,826,252
Eduardo Vivas	Director	$14.08	358,423	$5,047,241
Total Sold by all Insiders of AppLovin Corporation				**$35,859,111**

TOP 10 INSIDER SALES - NOVEMBER 2022

Owner	Relationship	Cost	Shares	Value
6. Palo Alto Networks, Inc. (PANW): $139.54				**Sector: Information Technology**
James J. Goetz	Director	$163.06	150,000	$24,459,102
Nir Zuk	EVP, Chief Technology Officer	$176.54	36,000	$6,355,516
Lee Klarich	EVP, Chief Product Officer	$166.74	15,000	$2,501,157
Total Sold by all Insiders of Palo Alto Networks, Inc.				**$33,315,540**
7. Antero Resources Corporation (AR): $30.99				**Sector: Energy**
Howard W. Keenan	Director	$31.30	1,000,000	$31,298,168
Total Sold by all Insiders of Antero Resources Corporation				**$31,298,168**
8. ZoomInfo Technologies Inc. (ZI): $30.11				**Sector: Communication Services**
Henry Schuck	Chief Executive Officer	$28.16	1,041,667	$29,336,037
Total Sold by all Insiders of ZoomInfo Technologies Inc.				**$29,336,037**
9. Atlassian Corporation (TEAM): $128.68				**Sector: Financials**
Michael Cannon-Brookes	Co-CEO, Co-Founder	$135.35	180,894	$24,483,902
Anutthara Bharadwaj	Chief Operating Officer	$145.49	667	$97,042
Total Sold by all Insiders of Atlassian Corporation				**$24,580,874**
10. Toast, Inc. (TOST): $18.03				**Sector: Information Technology**
Aman Narang	COO & Co-President	$17.12	702,523	$12,026,264
Stephen Fredette	Co-President	$18.82	404,654	$7,617,207
Christopher P. Comparato	Chief Executive Officer	$17.95	162,280	$2,912,859
James Michael Matlock	Principal Accounting Officer	$18.83	7,032	$132,398
Total Sold by all Insiders of Toast, Inc.				**$22,687,191**

SPINOFFS

New Spinoffs

Parent Symbol	Parent Name	Spinoff Name	Announced Date	Potential Spinoff Date	Type
BWA	BorgWarner Inc.	Fuel Systems and Aftermarket segments	12/6/2022	N/A	Spinoff
SWX	Southwest Gas Holdings, Inc.	Centuri Group, Inc.	12/15/2022	Q1 2023	Spinoff
JUPW	Jupiter Wellness	SRM Entertainment	12/19/2022	N/A	Spinoff
SGBX	Safe & Green Holdings Corp.	Safe and Green Development Corporation	12/23/2022	N/A	Spinoff

- On December 6, 2022, BorgWarner (BWA), announced its intention to execute a tax-free spin-off of its Fuel Systems and Aftermarket segments into a separate, publicly traded company.
- On December 15, 2022, Southwest Gas Holdings (SWX) determined it will pursue a spin-off of its wholly owned subsidiary, Centuri Group, to form a new independent publicly traded utility infrastructure services company.
- On December 19, 2022, Jupiter Wellness (JUPW), announced that SRM Entertainment (SRM) has filed a registration statement with the Securities and Exchange Commission to separate the company from Jupiter Wellness.
- On December 23, 2022, Safe & Green Holdings Corp. (SGBX) , announced that the company's subsidiary, SGB Development Corp. has changed its name to Safe and Green Development Corporation, and that the company further intends to spin-off thirty percent of Safe and Green Development Corporation to the company's stockholders, to form an independent, publicly traded company.

Completed Spinoffs

Spinoff Date	Spinoff Name & Symbol	Spinoff Performance	Parent Name & Symbol	Parent Performane
12/1/2022	F&G Annuities & Life (FG)	5.75%	Fidelity National Financial, Inc. (FNF)	-2.85%
12/15/2022	MasterBrand, Inc. (MBC)	-3.25%	Fortune Brands Innovations, Inc. (FBIN)	-1.08%

C-SUITE TRANSITIONS - Sudden Departures

“Sudden Departures” highlights management changes where an executive or the company announces a departure at relatively short notice and the executive is expected to leave the company within 30 days. Executive transitions, when done in the normal course of business, usually take weeks or months and a sudden departure could be red flag worth exploring.

1. Gibraltar Industries (ROCK): $45.86 — Sector: Industrials

Name: Patrick M. Burns
Role: Chief Operating Officer
Details: Gibraltar Industries announced that Patrick M. Burns, Chief Operating Officer, will be departing from his position, effective December 30, 2022.

2.Vodafone Group plc. (VOD): $10.05 — Sector: Communication Services

Name: Nick Read
Role: Chief Executive Officer
Details: Nick Read, Chief Executive Officer announced that he will step down at the end of 2022.

3. VF Corporation (VFC): $27.23 — Sector: Communication Services

Name: Steve Rendle
Role: Chairman, President and Chief Executive Officer
Details: VF Corporation (VFC) announced that Steve Rendle decided to retire from his position as Chairman, President and Chief Executive Officer.

4. WW International (WW): $3.78 — Sector: Information Technology

Name: Amy O’Keefe
Role: Chief Financial Officer
Details: Amy O’Keefe notified the company that she would be leaving her current position as Chief Financial Officer effective December 2, 2022.

5. Digital Realty Trust (DLR): $99.21 — Sector: Real Estate

Name: William A. Stein
Role: Chief Executive Officer
Details: On December 13, 2022, the board of the company approved the termination of William A. Stein as Chief Executive Officer of the company without cause, effective immediately.

C-SUITE TRANSITIONS - Sudden Departures

6. OptiNose (OPTN): $1.85 — Sector: Health Care

Name: Michele Janis
Role: Chief Financial Officer
Details: Michele Janis informed OptiNose, of her resignation as the acting Chief Financial Officer effective on December 30, 2022.

7. Sysco Corp. (SYY): $76 — Sector: Consumer Staples

Name: Aaron Alt
Role: Chief Financial Officer
Details: Aaron Alt Executive Vice President and Chief Financial Officer of Sysco Corporation , resigned from his position with the Company effective January 6, 2023

8. Insulet Corporation (PODD): $291.55 — Sector: Consumer Staples

Name: Charles Alpuche
Role: Chief Operating Officer
Details: Charles Alpuche, the Executive Vice President, Chief Operating Officer of Insulet Corporation informed the Company of his decision to retire from this position, effective December 31, 2022.

9. Banc of California Inc. (BANC) : $15.85 — Sector: Financials

Name: Lynn Sullivan
Role: Chief Risk Officer
Details: Lynn Sullivan, Executive Vice President and Chief Risk Officer of Banc of California, Inc. and Banc of California, National Association, a wholly owned subsidiary of the Company, will retire from those positions effective December 31, 2022

10. Gibraltar Industries (ROCK): $45.86 — Sector: Industrials

Name: Elizabeth R. Jensen
Role: Chief Human Resources
Details: Elizabeth R. Jensen notified Gibraltar Industries, of her intent to resign from her position as Vice President and Chief Human Resources Officer, effective January 13, 2023

STOCK BUYBACKS

Significant Buyback Announcements in the month of December

Premium members can access our list of stock buyback announcements here. We update this data every day and calculate how much of the company's market cap each buyback represents at the time of announcement. There were 78 buyback announcements in the month of December

Given below are the top 10 significant buyback announcements in December.

- On December 15, 2022, the Board of Directors of Lazydays Holdings, Inc. (LAZY), approved a new share repurchase program authorizing the company to repurchase up to $50 million of its Class A Common Stock equal to nearly 37% of its market cap at announcement.
- On December 15, 2022, the Board of Directors of DXP Enterprises, Inc. (DXPE), approved a new share repurchase program authorizing the company to repurchase up to $85 million of its Class A Common Stock equal to nearly 17% of its market cap at announcement.
- On December 15, 2022, the Board of Directors of Outbrain Inc. (OB), approved a new share repurchase program authorizing the company to repurchase up to $30 million of its Class A Common Stock equal to nearly 16.8% of its market cap at announcement.
- On December 8, 2022, the CarGurus, Inc. (CARG) Board of Directors approved a new share repurchase program authorizing the company to repurchase up to $250 million of its Class A Common Stock equal to nearly 16% of its market cap at announcement.
- On December 6, 2022, the Board of Directors of PENN Entertainment, Inc. (PENN), approved a new share repurchase program authorizing the company to repurchase up to $750 million of its Class A Common Stock equal to nearly 14.2% of its market cap at announcement.
- On December 23, 2022, the Board of Directors of BM Technologies, Inc. (BMTX), approved a new share repurchase program authorizing the company to repurchase up to $10 million of its Class A Common Stock equal to nearly 14% of its market cap at announcement.
- On December 28, 2022, the Board of Directors of iClick Interactive Asia Group Limited (ICLK), approved a new share repurchase program authorizing the company to repurchase up to $5 million of its Class A Common Stock equal to nearly 13% of its market cap at announcement.
- On December 8, 2022, the Board of Directors of Criteo S.A. (CRTO), approved an additional share repurchase program authorizing the company to repurchase up to $200 million of its Class A Common Stock equal to nearly 12.8% of its market cap at announcement.
- On December 22, 2022, the Board of Directors of ReWalk Robotics Ltd. (RWLK), approved an additional share repurchase program authorizing the company to repurchase up to $5.8 million of its Class A Common Stock equal to nearly 12.7% of its market cap at announcement.
- On December 7, 2022, the Board of Directors of Lowe's Companies, Inc. (LOW), approved a new share repurchase program authorizing the company to repurchase up to $15 billion of its Class A Common Stock equal to around 12% of its market cap at announcement.

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DOUBLE DIPPER

The Double Dipper is a screen we built of companies that are buying back their shares while their insiders are independently buying stock on the open market for their own portfolios. We are only including management insider purchases and are excluding purchases by directors and 10% owners. This month we ran the screen to look at share reductions over a two-quarter period.

Symbol	Company	%Change in Shares	Period of Report	Previous Period
FLXS	Flexsteel Industries, Inc.	-20.10%	09/30/2022	03/31/2022
HLMN	Hillman Solutions Corp.	-13.18%	09/24/2022	03/26/2022
RAVE	Rave Restaurant Group, Inc	-10.99%	09/25/2022	03/27/2022
CAR	Avis Budget Group, Inc.	-7.16%	09/30/2022	03/31/2022
LPX	Louisiana-Pacific Corporation	-6.98%	09/30/2022	03/31/2022
AZO	AutoZone, Inc	-6.72%	11/19/2022	05/07/2022
MEDP	Medpace Holdings, Inc.	-6.23%	09/30/2022	03/31/2022
FLL	Full House Resorts	-6.07%	09/30/2022	03/31/2022
SABS	SAB Biotherapeutics	-6.06%	09/30/2022	03/31/2022
FFBW	FFBW, Inc.	-7.63%	09/30/2022	03/31/2022
CAR	Avis Budget Group, Inc.	-7.16%	09/30/2022	03/31/2022
AN	AutoNation, Inc.	-5.91%	09/30/2022	03/31/2022
LSEA	Landsea Homes Corp	-5.64%	09/30/2022	03/31/2022
TRTX	TPG RE Finance Trust, Inc.	-5.54%	09/30/2022	03/31/2022
EPAC	Enerpac Tool Group Corp.	-5.48%	11/30/2022	05/31/2022
UFI	Unifi, Inc.	-5.13%	10/02/2022	03/27/2022
PRG	PROG Holdings, Inc.	-4.76%	09/30/2022	03/31/2022
SEAS	SeaWorld Entertainment, Inc.	-4.62%	09/30/2022	03/31/2022
BYRN	Byrna Technologies Inc.	-4.56%	08/31/2022	02/28/2022

DOUBLE DIPPER

Symbol	Company	%Change in Shares	Period of Report	Previous Period
VST	Vistra Corp.	-4.48%	09/30/2022	03/31/2022
LHDX	Lucira Health, Inc.	-4.44%	09/30/2022	03/31/2022
ASO	Academy Sports & Outdoors, Inc.	-4.18%	10/29/2022	04/30/2022
WOR	Worthington Industries, Inc.	-3.97%	08/31/2022	02/28/2022
AMN	AMN Healthcare Services, Inc.	-3.97%	09/30/2022	03/31/2022
HUN	Huntsman CORP	-3.81%	09/30/2022	03/31/2022
YAYO	EVmo, Inc.	-3.80%	09/30/2022	03/31/2022
OCN	Ocwen Financial Corporation	-3.79%	09/30/2022	03/31/2022
BRC	Brady Corporation	-3.77%	10/31/2022	04/30/2022
FOX	Fox Corp	-3.66%	09/30/2022	03/31/2022
GCO	Genesco Inc.	-3.50%	10/29/2022	04/30/2022
BHLB	Berkshire Hills Bancorp, Inc.	-3.48%	09/30/2022	03/31/2022
TMHC	Taylor Morrison Home Corp	-3.44%	09/30/2022	03/31/2022
AOUT	American Outdoor Brands, Inc.	-3.42%	10/31/2022	04/30/2022
AGO	Assured Guaranty Ltd.	-3.41%	09/30/2022	03/31/2022
SWBI	Smith & Wesson Brands, Inc.	-3.40%	10/31/2022	04/30/2022
PAY	Paymentus Holdings, Inc.	-3.35%	09/30/2022	03/31/2022
DVA	DaVita Inc.	-3.33%	09/30/2022	03/31/2022
THRY	Thryv Holdings, Inc.	-3.32%	09/30/2022	03/31/2022

DOUBLE DIPPER

Symbol	Company	%Change in Shares	Period of Report	Previous Period
HMST	HomeStreet, Inc.	-3.30%	09/30/2022	03/31/2022
VWE	Vintage Wine Estates, Inc.	-3.22%	09/30/2022	03/31/2022
CSV	Carriage Services, Inc.	-3.18%	09/30/2022	03/31/2022
HCA	HCA Healthcare, Inc.	-3.15%	09/30/2022	03/31/2022
BECN	Beacon Roofing Supply, Inc.	-3.09%	09/30/2022	03/31/2022
NTAP	NetApp, Inc.	-3.06%	10/28/2022	04/29/2022
SGH	SMART Global Holdings, Inc.	-3.01%	08/26/2022	02/25/2022

Voluntary Disclosure: I hold long positions in C3.ai (AI), Nerdy (NRDY), Lumen Technologies (LUMN), Lions Gate Entertainment (LGF), Momentive Global (MNTV), Abiomed (ABMD), Activision Blizzard (ATVI), Spirit Airlines (SAVE), Zillow (Z, ZG), Netflix (NFLX), 1Life Healthcare (ONEM), Nextdoor (KIND), Rocket Companies (RKT), Freeport-McMoran (FCX), Cannae (CNNE), Twilio (TWLO), Airbnb (ABNB), TEGNA (TGNA), First Horizon (FHN), Tower Semiconductor (TSEM), Doximity (DOCS), Virtu (VIRT), Magnachip Semiconductor (MX), Diamondback Energy (FANG), Jefferies (JEF), Coursera (COUR), SuRo Capital (SSSS), Vertex Pharmaceuticals (VRTX), B. Riley Financial (RILY) and Gilead Sciences (GILD).