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Friends of Long Lake,
We would like to take this opportunity to provide our updated thoughts on the market as well as an overview of three equity holdings. We hope you enjoy the letter, and as always, please do not hesitate to contact us with any questions.

All the best,
Long Lake Capital Management, LLC

Market Update

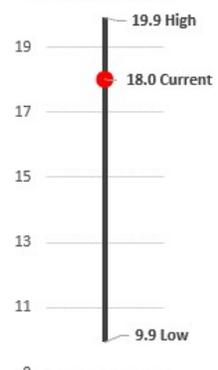
We entered 2017 with a fairly optimistic view of the market but are finding it more challenging to remain as enthusiastic. This is not to say we are outright negative, as there are numerous positive factors at work. Global economic growth has been fairly durable and trending upward, inflation appears to be picking up, the unemployment rate continues to decline, wages are growing, and corporate earnings are rebounding from the earnings recession of 2016.

While there is a significant amount of noise coming from Washington D.C. there is also reason to be optimistic: potential tax cuts, potential regulatory reform and a potential massive infrastructure program are all positive drivers. Interestingly, the prospect of those three events coming to fruition seems to have created an underlying bid to the market, as most selloffs since Trump's election have been short lived.

Reasons to be Optimistic	Reasons for Caution
<ul style="list-style-type: none"> • US, European, and Chinese economic data are stable to accelerating • Despite some setbacks, the likelihood of lower corporate and personal taxes rates persists • Though elevated, the S&P 500's forward PE multiple is still within its historic 10yr range • Energy/commodity prices have stabilized and may be pointing towards increased demand • Initial jobless claims at the lowest level since 1973 despite low labor force participation rate (62.7%); unemployment stands at 4.5% (lowest since 2007) • 2017 earnings are expected to grow 11.5%, highest since 2011, after a flat 2016 • Given low fixed income yields, the alternatives to stocks may not be attractive 	<ul style="list-style-type: none"> • Brewing geopolitical tensions with Russia, China, North Korea, Syria and others • Uncertainty regarding the impact to equities if bond yields being to rise • Transportation stocks, which often lead the broader market's direction, have lagged recently • What impact will a less accomodative Federal Reserve have on equities? • Margin debt, VIX level, household equity ownership level, and pundit commentary all seem to indicate complacency • Will Brexit cause other EU nations to reconsider their membership? • Trump remains a wild card. Be it foreign policy, tweets, or lofty promises much remains unknown

Source: LLCM

S&P 500 Forward PE Ratio
(Ten Year Range)



Source: LLCM, FactSet

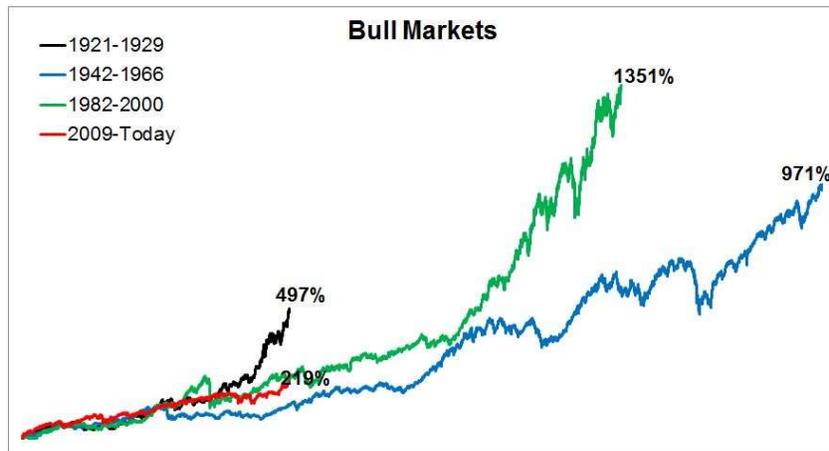
So, why are we less optimistic now? From our perspective, the market's valuation – on basically any generally accepted metric – looks to be on the lofty side. There also seems to be a growing sense of complacency amongst investors. We notice fewer headlines proclaiming the next major selloff is imminent, the VIX (a measure of expected market volatility often referred to as the “fear gauge”) has declined from over 25 in 2016 to just over 15 (after spending most of 2017 around ten), margin debt¹ is at a record high (which happened before the 2000 and 2007 crashes), and equity ownership amongst US households has exceeded 30% of their financial assets (eclipsing 30% presaged the crashes of 1968, 2000, and 2007). Finally, the Trump Administration has become increasingly more difficult to predict. This is not meant to be taken as political commentary, but aims to illustrate the difficulty navigating a market that is impacted by tweets, aggressive military responses, and seemingly never-ending policy flip flopping.

While there are likely many reasons to explain the aforementioned complacency, perhaps the best example may be the following chart from Ritholtz Wealth Management:



The market has faced a barrage of seemingly perilous events dating back to the S&P 500's nadir in March of 2009. However, all of these headlines have proven to be nonstarters and have likely left investors with a sense of “fool me once”. Without exception, each selloff has been a buying opportunity as the S&P500 gained over 250% (note: including dividends) in eight years. It is worth pointing out that such rallies often generate angst among investors as they wonder how much further the bull market can run. Interestingly, as displayed by the following graph (note: returns do not include dividends), the answer could be substantially more.

¹ Margin debt is the amount of money borrowed against a client's brokerage account. Excessive margin debt is arguably a sign of overly bullish sentiment. To be fair, margin debt is likely to increase as the market does.



As stewards of client capital, it is our job to balance the risk of losing money against the risk of missing out on potential appreciation. While we are less optimistic about the market's near term outlook than we were at the start of the year, we do not see anything particularly sinister on the horizon and remain cognizant of the market's resiliency.

Select Equity Holdings Update

Mattel (MAT, \$25.01/sh, \$8.5B Market Cap)

MAT falls squarely in the turnaround camp, as it is a company struggling to rectify missteps made by former management and keep up with changing consumer preferences. MAT's brands include: Barbie, Fisher-Price, HotWheels, Mega Blocks (a Lego competitor), and American Girl among others. See **Appendix Figure 1** for a complete line up. The company was founded in 1945 by Harold "Matt" Matson and Elliot Handler. Combining the two owner's first names produced Mattel. In 1947, Mr. Handler fell ill and sold his share of the company to Mr. Matson and his wife Ruth. Should readers of this letter ever find themselves on Jeopardy, it is worth noting the Matson's children were named Ken and Barbie.

Under former CEO Bryan Stockton, MAT failed to keep pace with rival Hasbro, losing a valuable licensing agreement with Disney and therefore revenues associated with Star Wars and the Disney Princess characters. MAT was also slow to acknowledge the shift towards digital, arguing that "children will always play with toys"². Additionally, Barbie, the company's most lucrative product line, saw significant revenue declines as parents began to eschew the unrealistic body image projected by the iconic doll.

Mr. Stockton was terminated in 2015 and replaced by long-time board member, and former Pepsi CEO, Christopher Sinclair. Mr. Sinclair was a stabilizing force, as he stemmed the losses at Barbie by rolling out a variety of new products, including those with a more realistic body type. Additionally, Mr. Sinclair repaired the strained relationship with Disney, which saw MAT win the rights to the upcoming Cars 3 movie. Finally, and arguably most importantly, he came to grips with the shift to digital and hired former Google North Americas president, Margaret Georgiadis, to succeed him as CEO. Notably,

² Mattel Analyst Day, CEO commentary, October 2014

this is the second time Mr. Sinclair has tapped a well-regarded female as his successor, having selected Indra Nooyi to run Pepsi – a post she has maintained since 2006.

Mrs. Georgiadis took the helm on February 8th of 2017, so it is too early to pass judgment on her time at MAT. However, she has communicated to investors that the company will be more focused on integrating its core brands into digital products while also placing greater emphasis on younger children, who may not spend as much time on digital devices as their older peers.

As with most turn around stories, there is certainly execution risk. However, MAT traded at over \$45/share in 2014 and feels the Cars franchise will allow it to replace the ~\$350M in revenue lost from the Disney contract. Additional revenue upside from the upcoming Jurassic World movie is also possible. Continued progress on the Barbie front would aid in expanding the company's profitability, as the product line accounts for ~25% of the company's free cash flow yet only ~15% of revenue. Notably, for the first time in three years, full year gross sales for Barbie were positive, with 2016 ending up a solid 9%.

Management believes operating margins will approach 15% in 2017, up from 12% in 2016, which should drive EPS growth from \$1.06 in 2016 to \$1.45 in 2017 and \$1.70 in 2018. MAT currently trades at 17.2x 2017's projected earnings, a discount to its average PE of 19.4x and to the broader market. The company has a dividend yield ~6% and paid out 100% of its free cash flow to support the payment. While some analysts feel the dividend needs to be cut, in order to support new product development, prior management has made supporting it a priority. Given Mrs. Georgiadis' tech-based background, which tends to spend heavily on R&D, it would not be a total shock to see the dividend reduced.

Overall, MAT appears to be a company on the mend, with new management, a better grasp on the competitive environment, reasonable valuation, solid projected EPS growth, well known brands, movie catalysts, and a sizable dividend yield.

Roche (RHHBY, \$31.92/share, \$178B market cap)

Roche is a Swiss-based health care company with Pharmaceutical and Diagnostic business segments. It is the world's largest biotech company resulting from its 2009 acquisition of U.S. company Genentech for \$46.8B. Pharmaceuticals account for 77% of sales, but 92% of operating income, and are predominantly focused on oncology products. Diagnostics account for 23% of sales, and 8% of operating income, and are focused on the identification of various diseases.

Positive news flow on cancer drugs such as Perjeta (to be used in combination with Roche drug Herceptin) for breast cancer and Tecentriq for lung cancer are expected to drive positive earnings growth and stock price performance. The treatment market for non-small cell lung cancer is expected to grow from \$5.1B in 2013 to \$7.9B by 2020 across G8 nations³. The following table from Jefferies summarizes Roche's potential catalysts into the first quarter of 2018.

³ The Group of Eight (G8) refers to the group of highly industrialized nations: France, Germany, Italy, the United Kingdom, Japan, the United States, Canada, and Russia.

2Q'17	3Q'17	4Q'17	1Q'18
↑ Q1 results (27 th April)	↑ Q2 results (27 th July)	↑ Q3 results (19 th October)	↑ Q4 results (February)
Tecentriq EU reg dec in 2L NSCLC & mUC (H1'17)	ACE910 Potential approval in inhibitor patients, if granted priority review		Lucentis PIII (LADDER) data in AMD port delivery system (PDS)
Crenezumab PIII Long term safety extension study in mild to moderate AD	Tecentriq PIII (IMpower150) Avastin + chemo combo 1L NSCLC	Tecentriq PIII (IMmotion151) in combo with Avastin in 1L RCC	RG6168 PIII data for SA237 (IL-6) in neuromyelitis optica (NMO) and NMO spectrum disorder
Perjeta APHINITY data presentation expected at ASCO (2-6 June)	Biosimilar Avastin US Reg dec: Amgen's ABP215	ACE910 PIII (HAVEN 3) data in NON-inhibitor patients	Biosimilar Rituxan PIII (ASSIST_FL) data in 1L FL for Sandoz' GP2013
Tecentriq US reg dec 1L bladder - PDUFA 30 Apr; PIII (IMvigor211) in 2L bladder	Biosimilar Herceptin US biosimilar Reg dec: Mylan's MYL1401O (BsUFA -3 Sept); EU biosimilar Reg dec: Mylan's MYL-1401O & Samsung's SB3; Celltrion IPR institution decision on '897 expected c21 st Aug	Biosimilar Avastin EU biosimilar Reg dec: Amgen's ABP215	
Biosimilar Rituxan GP2013 EU reg. dec.		Venclexta PII combo with cobimetinib or idasanutlin in r/r AML; PII data in r/r multiple myeloma	
Venclexta (ABT-199) PIII MURANO study in combo with Rituxan/ bendamustine (BR) in r/r CLL in mid'17		Taselisib PII (LORELEI) data in neo adjuvant post menopausal BC	
	Lampalizumab PIII (CHROMA & SPECTRI) data in Geographic Atrophy	Biosimilar - Avastin PIII data Pfizer's PF-06439535; Boehringer's BI695502	
	Avastin US reg dec in mesothelioma and glioblastoma	Gazyva US Reg Dec in 1L follicular Lymphoma (depending on filing time)	
	Actemra US reg dec in Giant Cell Arteritis (PDUFA - Jul'17)	Gazyva PII data in Lupus Nephritis	
	Ocrevus EU reg.dec. in PPMS & RMS		

Roche sells at a PE ratio of 16.4x on 2017 earnings. This is in line with the pharmaceutical group but we believe the company's strong biologic franchise and ongoing innovation of new products give it a superior profile. In addition the stock also sells at a discount to the average company as measured by the S&P index, yet Roche's growth outlook and return on capital are superior to the average company. Finally, the dividend yield is attractive at 3.2% and the balance sheet is clean with just \$12.8B in net debt vs. an equity market cap of \$178B and annual free cash flow in excess of \$9B.

Liberty Ventures (LVNTA, \$50.87/sh, \$13.9B market cap)

LVNTA has performed admirably year to date, posting gains of just over 40%. The catalyst behind the strength was an announcement in early April that LVNTA would be merged into Alaskan cable company General Communications (GNCMA, \$1.3B market cap). In the market's view, this creates a clear long-term path for a potential merger of GNCMA/LVNTA into another cable company, most likely Charter Communications (CHTR, \$102B market cap). Post deal, which is expected to close in 1Q18, LVNTA will own 77% of a GNCMA/LVNTA combination that will include LVNTA's holdings of \$3.7B of Liberty Broadband (LBRDA, \$15.8B market cap) shares, \$1.8 billion of CHTR shares, and the GNCMA cable business with an enterprise value of \$2.7B at the acquisition price. The acquisition valued GNCMA at 8.6x 2017 EBITDA (earnings before interest taxes, depreciation, and amortization) while potential acquirer CHTR trades near 10x. As a reminder, LVNTA and CHTR are a part of Dr. John Malone's media empire, and Dr. Malone has indicated CHTR aims to acquire additional cable companies.

Miscellaneous

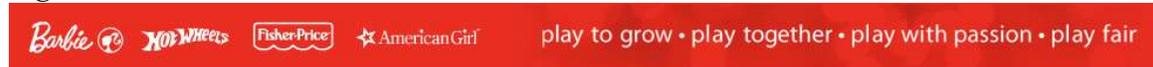
On this day in history, 26 years ago, the Dow Jones industrial average crossed 3,000 for the first time. For some perspective, General Motors and Ford were the two largest components of the 30 stock index. Today, both possess equity market caps smaller than Tesla's. The NY Times remarked:

At current profit levels, there is little doubt that stock prices are unreasonably high. The expectation of improvement has sustained the market, but there may be limits as to how far that can go⁴.

At the time, in 1991, Wall Street pundits were concerned about rising interest rates, geopolitical tensions in Iraq/Kuwait, an increase in individual investor stock purchases, the Federal Reserve's stance, and potentially overly optimistic assumptions about inflation and economic growth. In terms of the market environment, one could argue, not much has changed in 26 years.

⁴ <http://www.nytimes.com/1991/04/18/business/market-place-at-last-dow-closes-above-3000.html>

Appendix Figure 1



MATTEL TOYS

Sort By: Audience ▼

Infants & Preschool

[Blue's Clues™](#)
[Disney](#)
[Disney Games](#)
[Dora the Explorer](#)
[Fisher-Price® Thomas & Friends™](#)
[Fisher-Price® Baby Gear](#)
[Fisher-Price® Infant Toys](#)
[Fisher-Price® Preschool Toys](#)
[Geo Trax®](#)
[Grow to Pro®](#)
[Laugh & Learn™](#)
[Little People®](#)
[Matchbox®](#)
[Mickey Mouse](#)
[Miracles & Milestones](#)
[Pixar®](#)
[Power Wheels®](#)
[See 'n Say®](#)
[Sesame Street®](#)
[UNO®](#)
[View-Master®](#)
[Winnie The Pooh](#)

Girls

[American Girl®](#)
[American Girl® Books](#)
[American Girl® Magazine](#)
[American Girls Collection®](#)
[Barbie Doll of the World](#)
[Barbie Girls®](#)
[Barbie.com™](#)
[Barbie® Collector](#)
[Barbie® Shop](#)
[Barbie™ Pink Ticket Party](#)
[Barbie™ Style](#)
[Bitty Baby®](#)
[Blokus®](#)
[Disney Games](#)
[Diva Starz™](#)
[Dora Links](#)
[ello™](#)
[Kitchen Play](#)
[Little Mommy](#)
[Loving Family™ Doll House](#)
[Magic 8 Ball®](#)
[Mattel Games and Puzzles](#)
[Matty Collector™](#)
[My First Dollhouse™](#)
[My Meebas™](#)
[My Scene™](#)
[Othello®](#)
[Outburst®](#)
[Pixel Chix®](#)
[Polly Pocket™](#)
[Radica®](#)
[Rebound®](#)
[Scene It?®](#)
[Scrabble® \(International\)](#)
[Shining Stars®](#)
[Snap n' Style](#)
[Snort!®](#)
[So In Style™ by Barbie®](#)
[Thumbelina®](#)
[Tip-It®](#)
[Toss Across®](#)
[Tumblin' Monkeys®](#)
[UNO®](#)
[View-Master®](#)

Boys

[Apples to Apples®](#)
[Batman: The Brave and the Bold™](#)
[Battle Force 5™](#)
[Blokus®](#)
[DC Universe™](#)
[ESPN Toys](#)
[Hot Wheels®](#)
[HotWheelsCollectors.com™](#)
[HotWheelsShop.com](#)
[James Cameron's Avatar™](#)
[Magic 8 Ball®](#)
[Masters of the Universe®](#)
[Matchbox®](#)
[Mattel Games and Puzzles](#)
[Max Steel®](#)
[Mindflex®](#)
[Othello®](#)
[Pictionary Man®](#)
[Prehistoric Pets™](#)
[Rebound®](#)
[Scene It?®](#)
[Scrabble® \(International\)](#)
[Shake 'n Go®](#)
[Snort!®](#)
[SpongeBob SquarePants™](#)
[Tip-It®](#)
[Toss Across®](#)
[Tumblin' Monkeys®](#)
[Tyco® R/C](#)
[UNO®](#)

Grown-Ups & Parents

[Barbie® Collector](#)
[Barbie® Shop](#)
[Barbie™ Style](#)
[Batman: The Brave and the Bold™](#)
[Blokus®](#)
[DC Universe™](#)
[Fisher-Price®](#)
[Fisher-Price® Baby Gear](#)
[HotWheelsCollectors.com™](#)
[HotWheelsShop.com](#)
[Magic 8 Ball®](#)
[Masters of the Universe®](#)
[Matchbox®](#)
[Mattel Games and Puzzles](#)
[Matty Collector™](#)
[Othello®](#)
[Outburst®](#)
[Rebound®](#)
[Scene It?®](#)
[Scrabble® \(International\)](#)
[Snort!®](#)
[UNO®](#)
[View-Master®](#)

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