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PORTER & CO. CONFERENCE 2023

# Best Ideas Panel

Thomas Carrol, Scott Garliss, Ross Hendricks, Porter Stansberry

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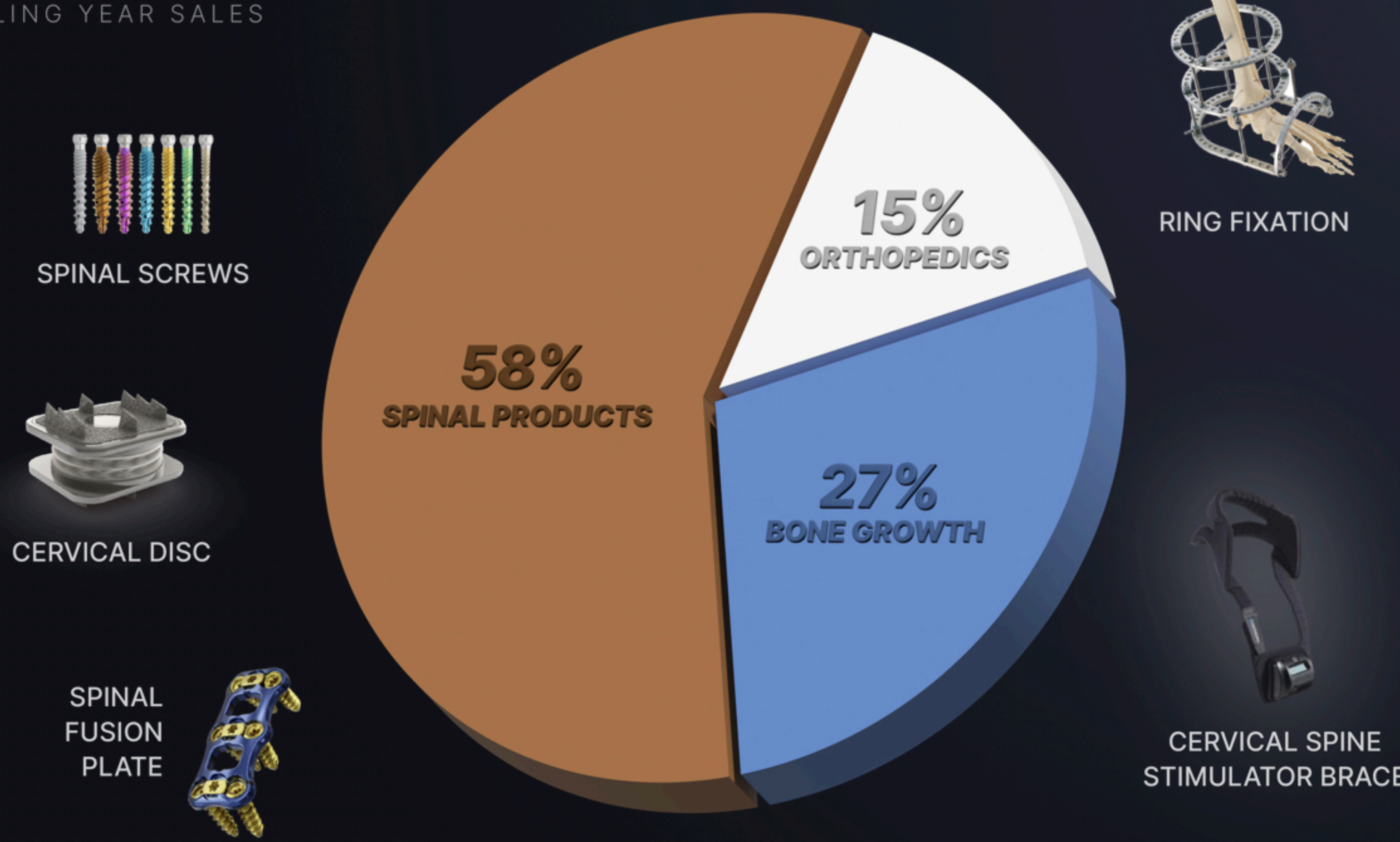
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# A Special Situation In The Making

Thomas Carroll | Porter & Co. Activist Investor

# Orthofix Medical

SEGMENT REVENUE AND PRODUCT EXAMPLES  
\$730 MILLION IN TRAILING YEAR SALES



# Orthofix (OFIX) Has **All the Ingredients**

1. Corporate drama
2. Undervalued security
3. Limited risk
4. Straightforward return estimate



## Orthofix Global Medical Devices & Solutions

Improving Patient Mobility  
Through Innovation

# 1. Corporate Drama

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- October 2022 - Orthofix and SeaSpine announce merger.
- November – Shareholders hate deal. Value destructive. They’re not wrong. Orthofix trades at higher multiples than commoditized spine.
- November - Rumors of private equity offering \$20-\$22 for Orthofix alone.
- Nine months later... Management fired - CEO, CFO, CLO (Sept. 12)
- Why? “Well documented inappropriate conduct.” – person of knowledge

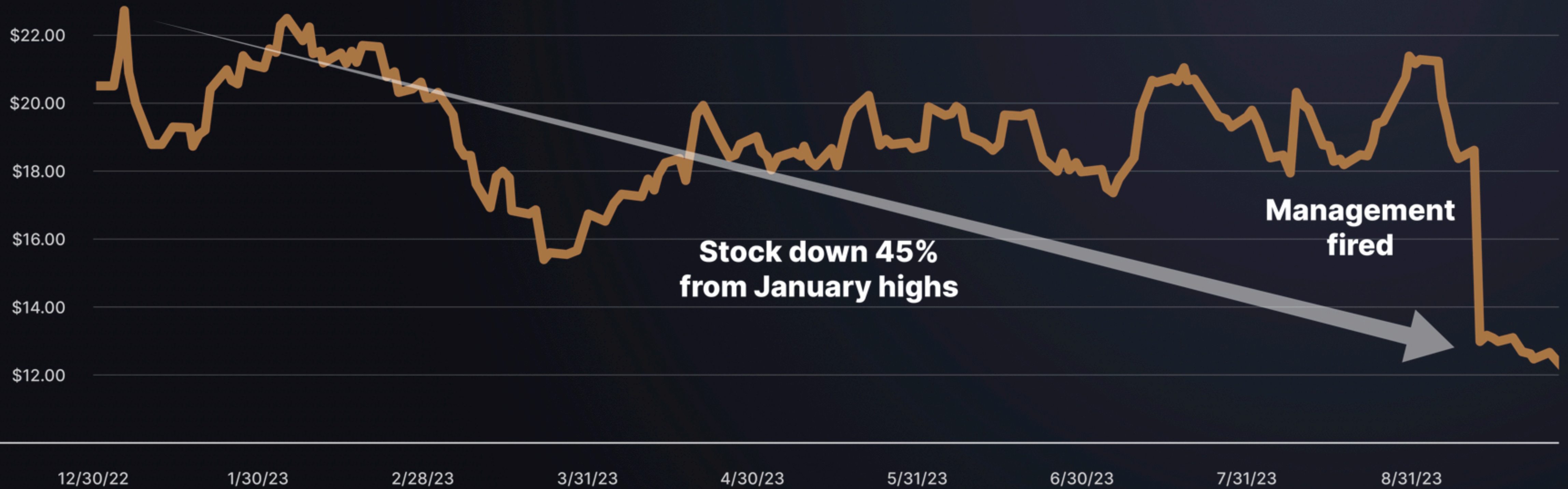
***This Story Is Ripe for More  
Corporate Drama***

## 2. Undervalued Security

Company	Ticker	Price	Mkt. Cap (4M)	2024 P/S	2024 EV/EBITDA
<b>Orthofix Medical</b>	<b>OFIG</b>	<b>\$12.74</b>	<b>\$468</b>	<b>0.6</b>	<b>5.2</b>
Globus Medical	GMED	\$50.26	\$7,032	5.7	11.0
Integra Life Sciences	IART	\$38.25	\$3,114	1.9	10.6
Enovis	ENOV	\$53.09	\$2,896	1.6	11.3
ZimVie	ZIMV	\$9.34	\$248	0.3	6.2
Bioventus	BVS	\$3.03	\$190	0.4	8.1
<b>Average</b>				<b>2.0</b>	<b>9.4</b>

### 3. OFIX Orthofix Medical

YEAR-TO-DATE STOCK PRICE





## 4. OFIX Target Price Scenarios



# Potential **Risks**

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- New management sets their bar low?
- Dilutive capital raise? Discounted deal?
- Nothing happens. This is an off-the-radar stock. Maybe no one cares!

- **Corporate Drama**
  - Management fired. Perfect time to “seek strategic alternatives.”
- **Undervalued**
  - OFIX trades at a 50%+ discount to peers.
- **Minimized Risk**
  - The stock has been cut in half from its highs.
- **Target Price**
  - Using straightforward methods, we can reasonably estimate returns.

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# The Gathering Storm

Scott Garliss | Editor, *Wealth Signals*

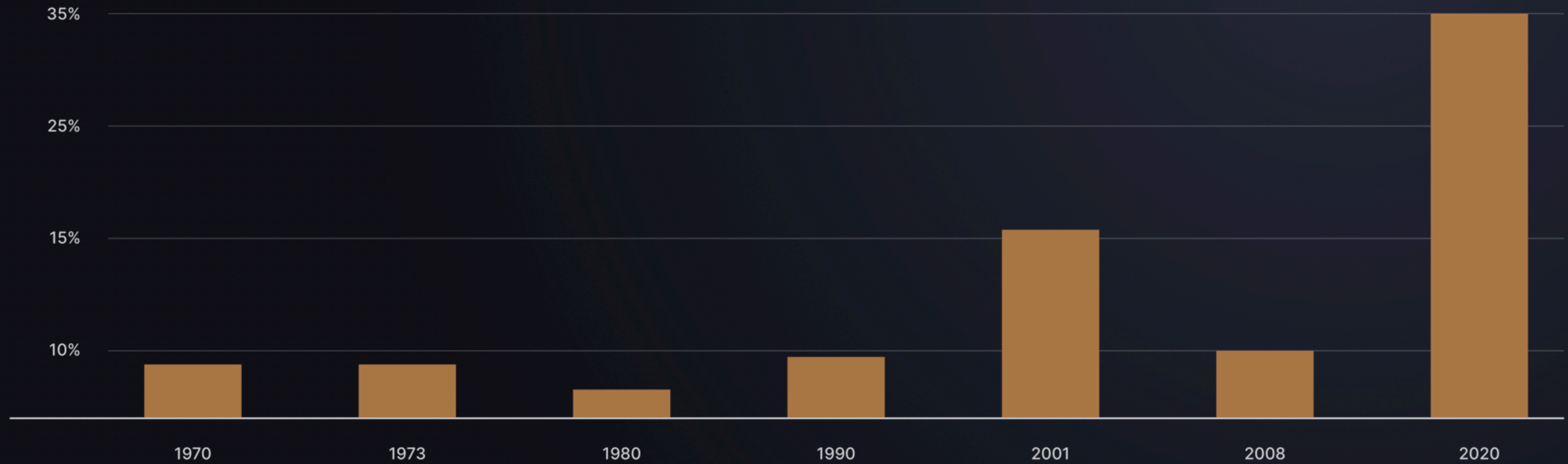
# COVID Stimulus **Blew Away Prior Cycles**

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- Due to COVID, Government stimulus hit record levels
- Between 2020 and 2021, Congress approved over \$5 trillion in fiscal stimulus
- The % increase was 5x greater than the Financial Crisis (2008)

# COVID Stimulus **Blew Away Prior Cycles**

U.S. FISCAL SPENDING GROWTH FOLLOWING RECESSION ONSET



# Inflation Growth **Exploded Higher**

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- The household savings rate shot up to a record 34%
- Consumers started spending that money
- Inventory depletion caused inflation to shoot up to a 40-year high

# Inflation **Growth Exploded Higher**

U.S. CONSUMER PRICE INDEX





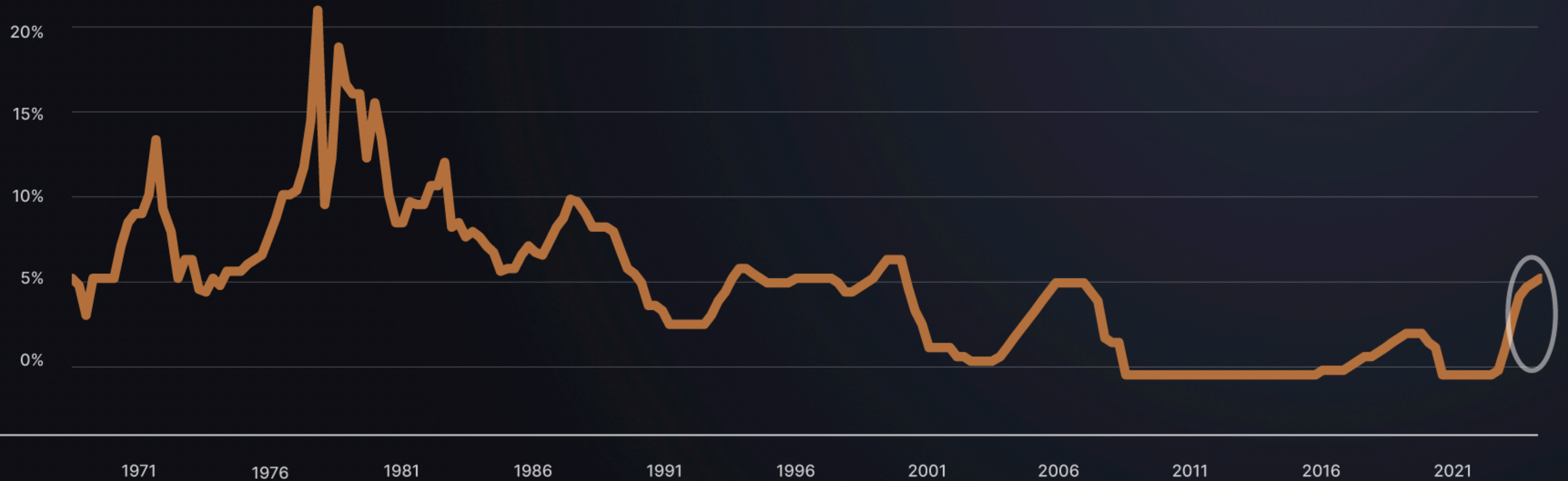
# Interest Rates Shot Up

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- The Federal Reserve was forced to act
- The Federal Funds Rate jumped from 0.25% to 5.50% in 20 months
- That was one of the fastest rate-hike cycles in history

# Interest Rates **Shot Up**

FEDERAL FUNDS RATE



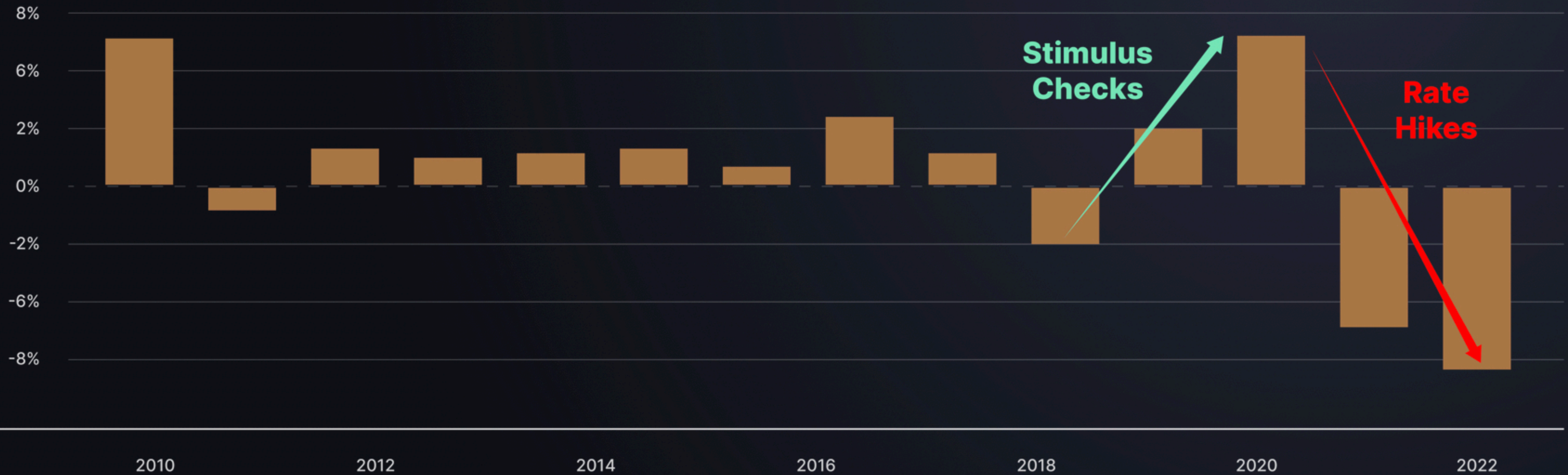
# Consumer Goods Demand Was Crushed

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- In 2020 and 2021, cardboard box demand shot up 10%
- The fastest pace on record going back to 2009
- Higher rates = demand dropped by a record 9% in 2023

# Consumer Goods Demand Was Crushed

NORTH AMERICAN CARDBOARD BOX DEMAND



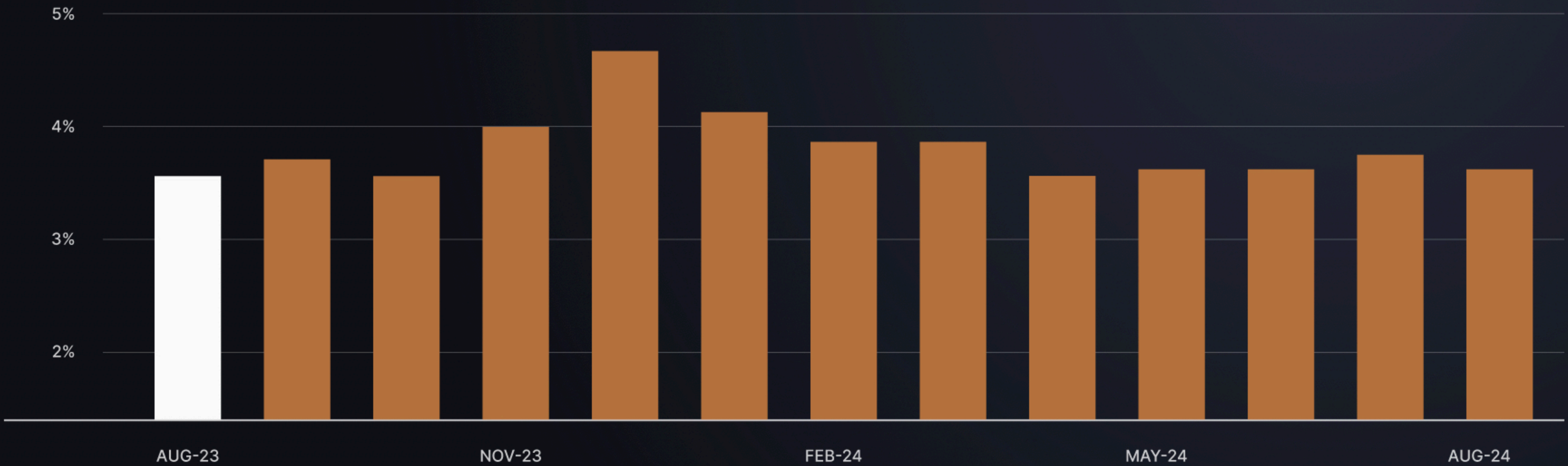
# Inflation Growth Could Remain High

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- The Fed's rate hikes have eased inflation growth
- However, it's currently at 3.7%
- That's still far...
- And it could be a while before the Fed reaches its goal

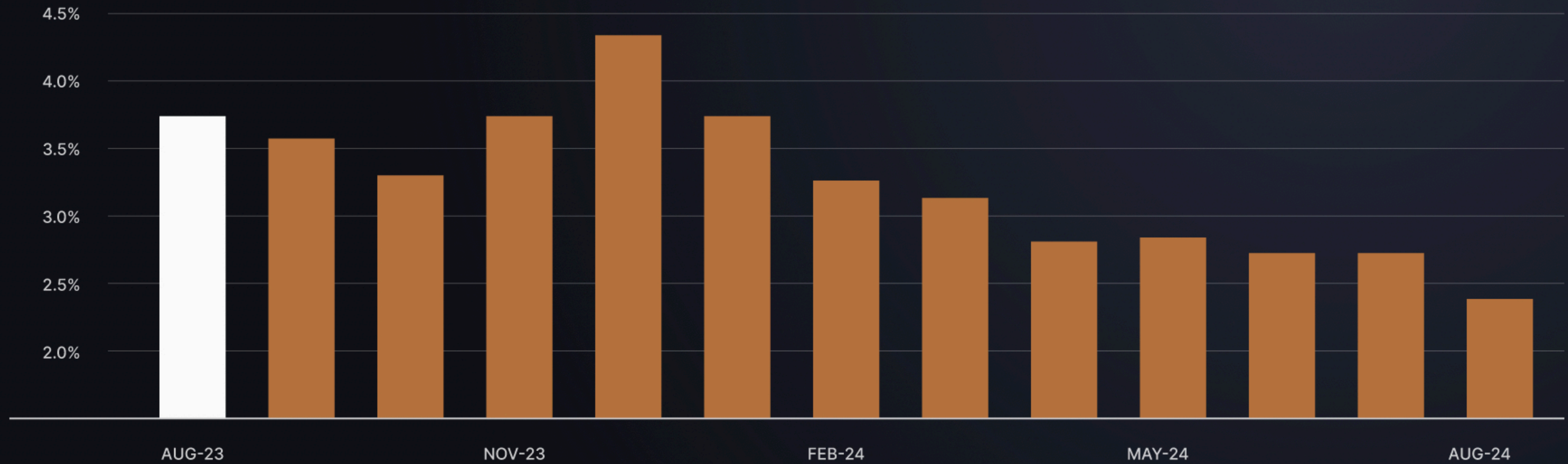
# Inflation **Could Remain High**

CONSUMER PRICE INDEX AT 0.3% MONTHLY GROWTH



# Inflation **Could Remain High**

CONSUMER PRICE INDEX AT 0.2% MONTHLY GROWTH



# Debt Servicing Costs Are Way Up

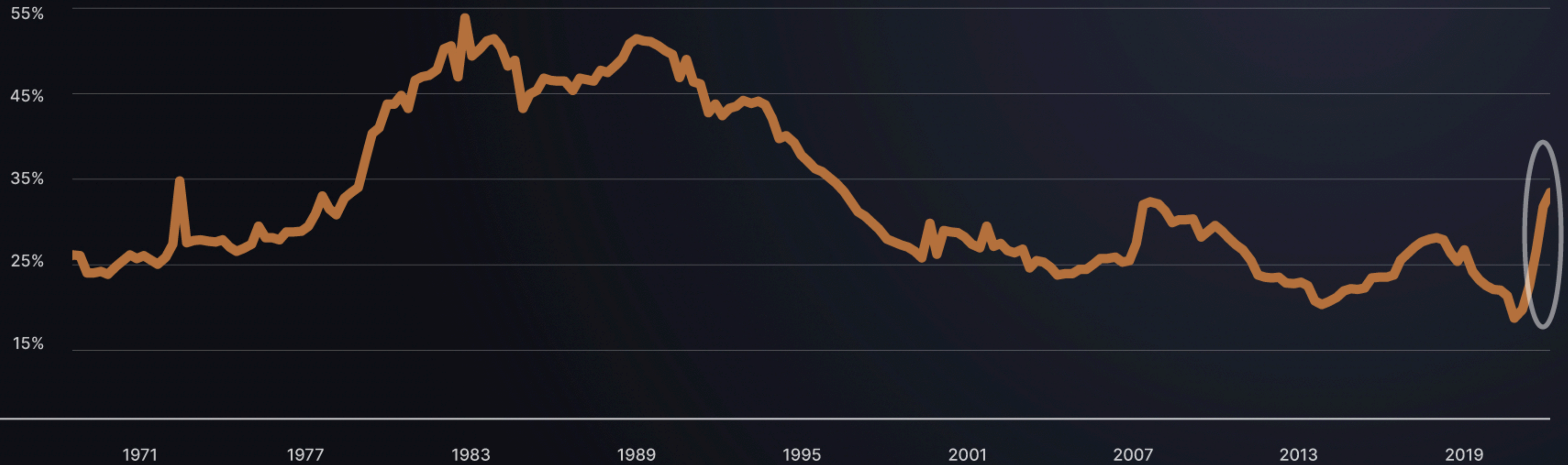
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- Rate hikes have caused bond yields to rise
- U.S. debt payments are on track to hit \$909 billion this year
- That's 31% of tax receipts compared to 19% in early 2022



# Debt Servicing **Costs Are Way Up**

U.S. INTEREST PAYMENTS VS. TAX RECEIPTS



# We're At An Inflection Point

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- We looked at the spread between 30-Year Treasuries and 30-year mortgages
- The difference is currently 3% points
- The prior three instances have all been major stock market turning points

# We're at an **Inflection Point**

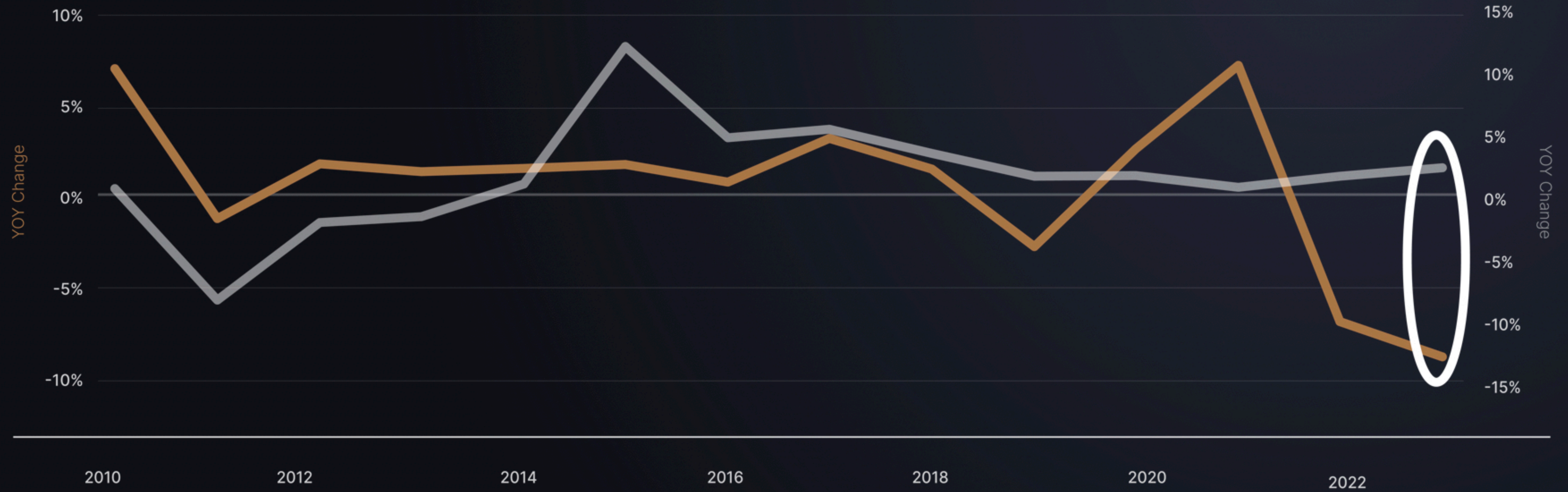
30-YEAR MORTGAGE RATE VS. 30-YEAR TREASURY YIELD



**Let's look at the previous  
examples through a  
historical lens...**

# Consumer Goods Demand Is Easing

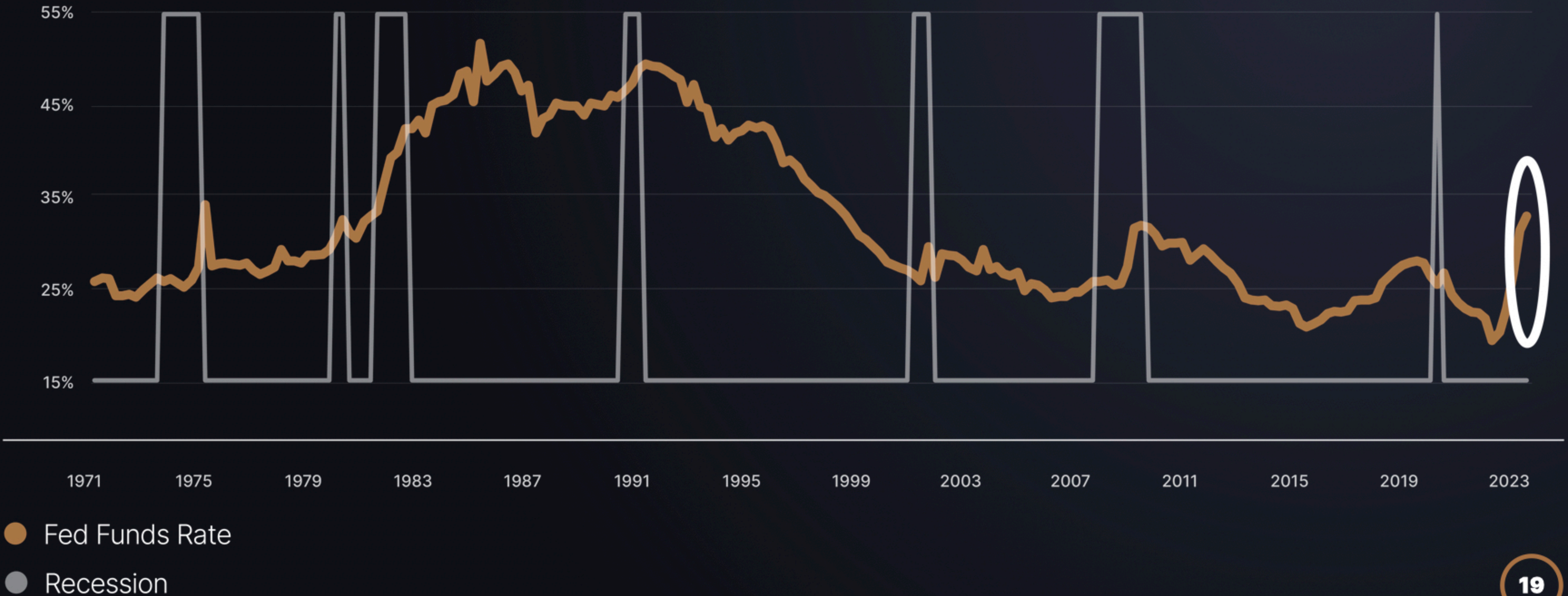
CARDBOARD BOX DEMAND VS. GDP



- Cardboard Box Demand
- GDP

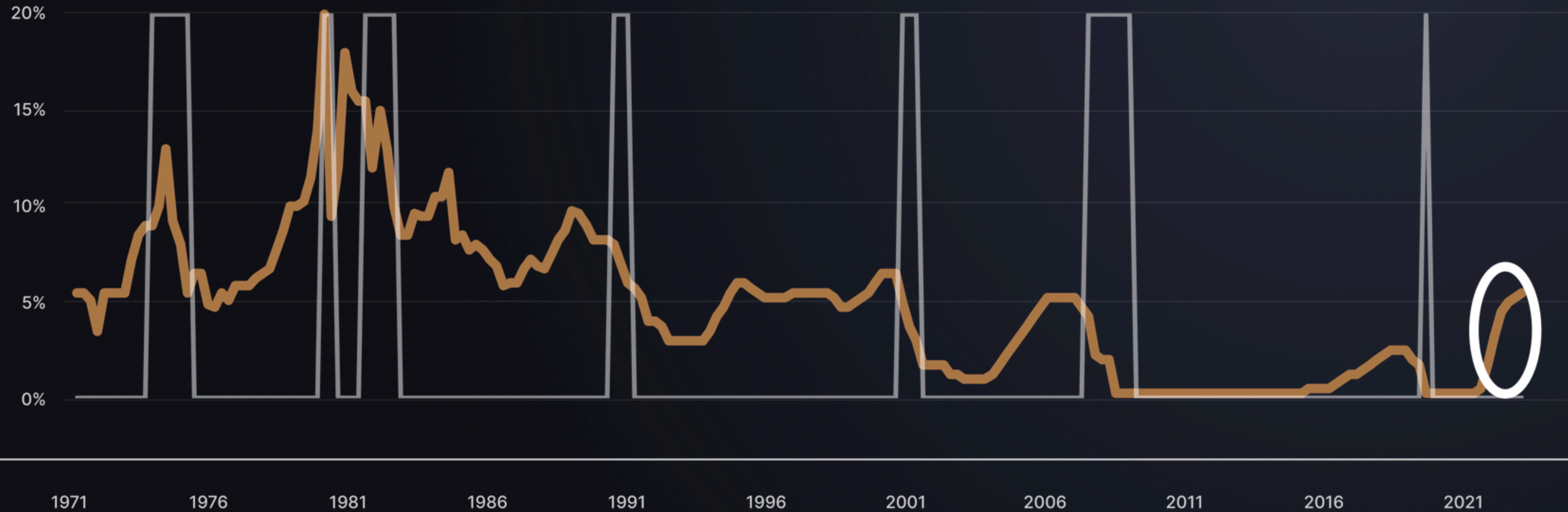
# Debt Servicing **Costs Are Way Up**

U.S. INTEREST PAYMENTS VS. TAX RECEIPTS



# Interest Rates **Shot Up**

FEDERAL RESERVE POLICY VS. RECESSION



● Fed Funds Rate

● Recession

# We Want to **Play It Safe**

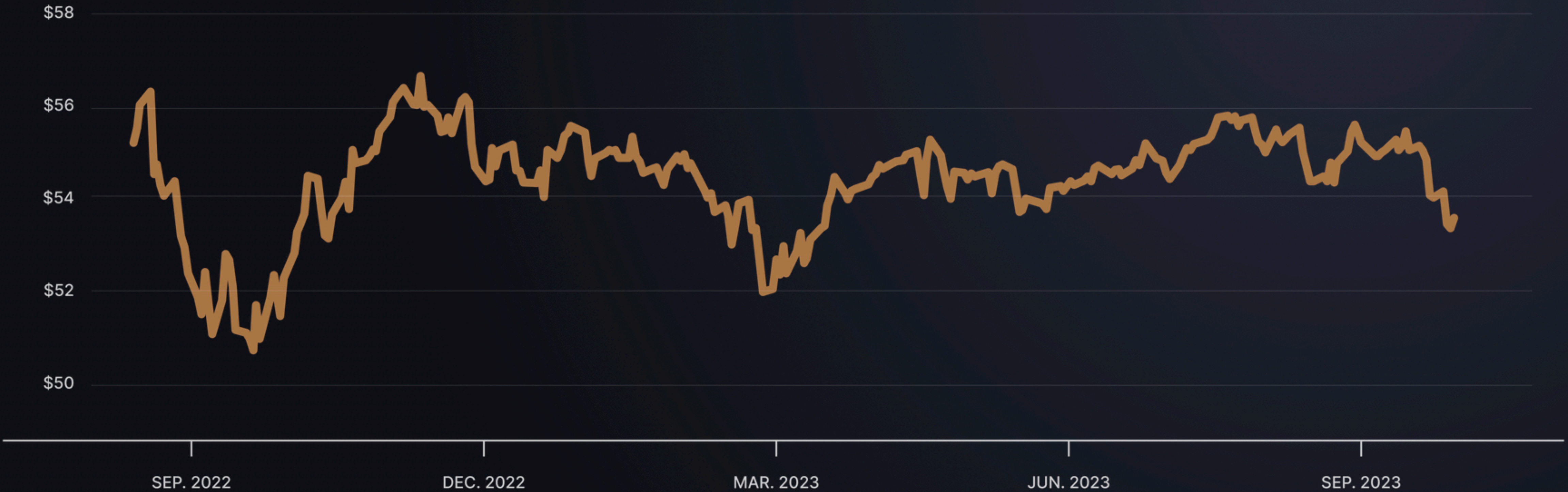
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- My signals show us recession signs are building
- Consumer demand is fading
- Excess COVID savings likely delayed the inevitable
- We want to invest defensively



# Own Safety With An **Income Twist**

JP MORGAN EQUITY PREMIUM INCOME FUND (JEPI)



# JPMorgan Premium Equity Income Fund (**JEPI**)

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- Actively managed fund investing in defensive assets
- Owns steady dividend paying names like Honeywell, Eli Lilly, and Pepsi
- It also writes covered calls to enhance income yield

# JPMorgan Premium Equity Income Fund (**JEPI**)

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- The fund has a beta of 0.5, meaning less volatile than the S&P 500 Index
- It has a 7.5% net indicated yield and pays out monthly
- This should help protect against inflation



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# A Royalty on Global Commerce

This Capital Efficient Compounder Could Deliver  
20-30% Annualized Returns

# Adyen: The Payments Disruptor

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- **Adyen (ADYEN)** is a payment service provider (PSP) that facilitates transactions across virtually every electronic form, from credit and debit cards to digital wallets, like Apple Pay.
- Based in the Netherlands, Adyen was launched in 2006 by industry veterans including CEO Pieter van der Does. Adyen's management previously founded Bibit, a PSP that became WorldPay, which FIS acquired for \$46 billion in 2019.
- Adyen has re-engineered the PSP model from the ground up. It now takes market share from the legacy payments system its founders helped build.

# Adyen Means “Start Again”

- The legacy digital payments infrastructure is a cobbled patchwork system that resembles a Rube Goldberg machine.
- Adyen streamlines a myriad of functions into a single platform.
- Adyen is the only PSP in the world with a unified platform – giving Adyen unmatched efficiency in processing transactions.



Adyen FY2020 Capital Markets Day Presentation

# Adyen's Edge

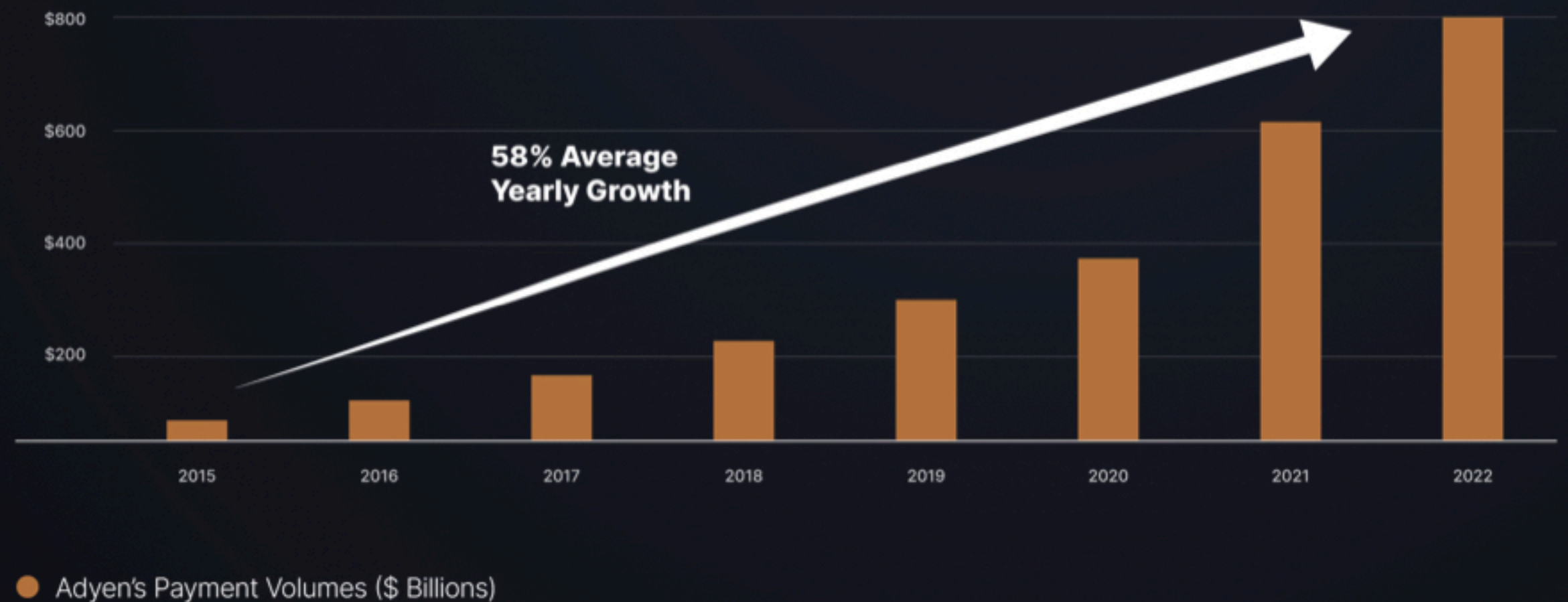
- The inefficiency of digital payments infrastructure means that 20% of online payments fail, compared with 5% failure rates offline.
- Authorization rates refer to the percent of attempted transactions that successfully get processed. Adyen offers best-in-class authorization rates.
- For large enterprises, every 1% increase in authorization rates can translate into billions of dollars in additional revenue.
- Adyen saves the world's largest corporations billions of dollars each year, and thus commands premium pricing power versus its competitors.



# A Royalty on Global Growth

- The cost savings Adyen provides has fueled its rapid growth and market share gains.
- Despite premium pricing, it enjoys sticky customers. Adyen loses less than 1% of its existing customers each year.
- 80% of Adyen's payment volume growth comes from existing customers that bring Adyen along for the ride.
- Adyen is one of the world's fastest growing payment companies. With only 2% market share, it has a long runway of growth ahead.

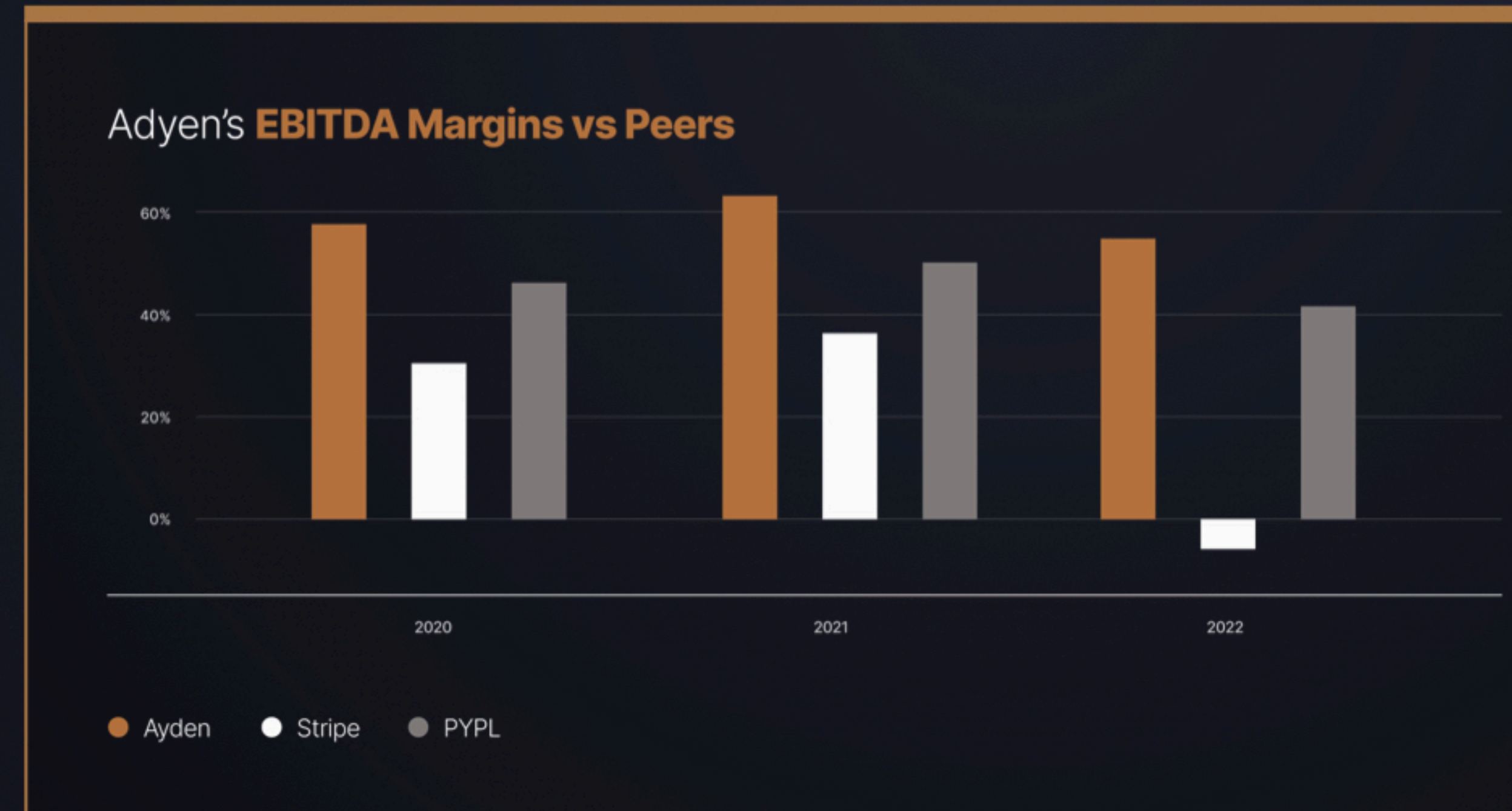
Adyen's **Growth in Payment Volumes**





# The Competition

- Adyen's key competitors include privately held Stripe and PayPal's Braintree.
- Adyen maintains a uniquely disciplined approach to cost management and capital allocation.
- It's the only major payment processor that has never made a single acquisition. It develops young talent instead of paying up for tenured staff. Every potential new hire is interviewed by one of Adyen's six board members.
- Adyen's operational efficiency and pricing power translate into best-in-class profit margins.



# A Tale of **Two Payment Disruptors**

## adyen

- Profit margins on par with Visa and MasterCard
- 2,000 employees to process \$800 billion in payment volumes
- No single employee makes >\$1 million (including CEO); \$12 million in annual stock compensation
- \$265 million lifetime capital raises

## stripe

- Consistent losses since inception, after factoring in stock-based compensation
- 7,000 employees to process \$900 billion in payment volumes
- Raised \$6.5 billion in April 2023 to fund employee stock compensation
- \$8.5 billion lifetime capital raises

# The Ultimate Inflation Hedge

- The world's best payment processors offer the ultimate source of inflation protection, because of their extreme capital efficiency.
- After a payments platform is built, each incremental dollar of transaction value comes with virtually no additional capital or operating expense.
- Adyen is one of the world's most capital efficient payment processors. As the supply of fiat currency expands, Adyen processes larger transaction volumes over a relatively fixed cost base.

## Adyen's **World-Class Capital Efficiency**



# A Fallen Angle

- Adyen was a former high-flying market darling during the 2020 - 2021 growth stock mania.
- Growth slowed from 46% during the COVID-era online spending boom in 2021 to 12% in 2023. But nothing has changed Adyen's competitive position or profitability.
- Management has guided for mid-20% to 30% long-term revenue growth as the company continues taking market share from legacy PSPs.
- For the first time in its history as a public company, Adyen trades at a reasonable valuation of just over 20x free cash flow.

Adyen Trades as its **Lowest Valuation Since Going Public in 2018**

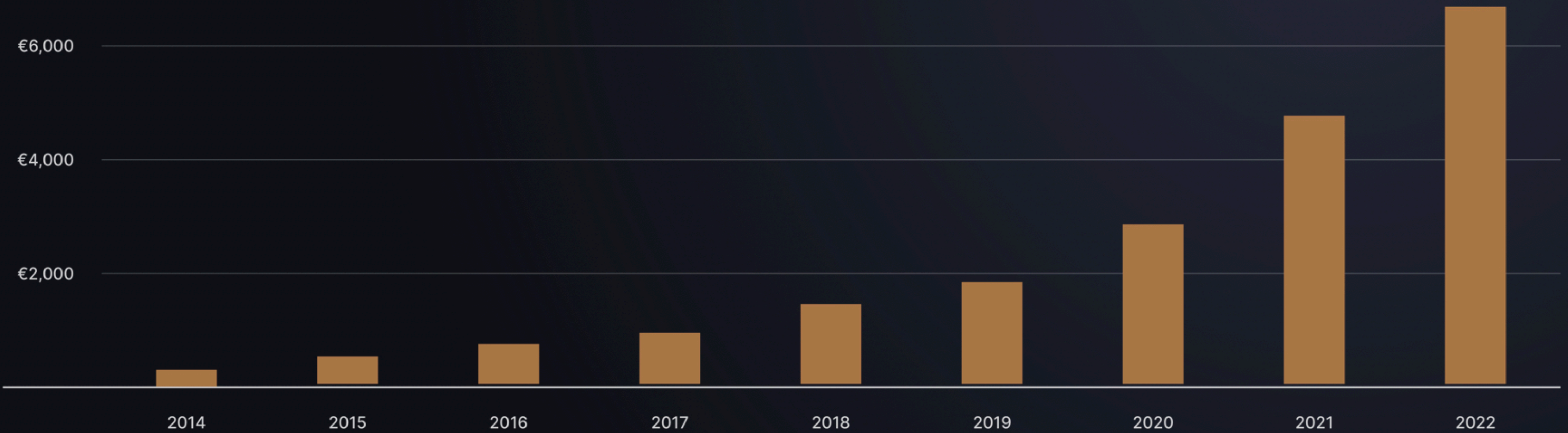


## Adyen Could Deliver 20% Compounded Returns Under Conservative Assumptions

Growth Assumptions	2023 Revenue (M)	2023 Free Cash Flow (M)	Enterprise Value at 20x FCF (M)	Share Price	Total Return*	Annualized Return*	Net Cash Balance
20% Growth	€9,288	€4,644	€92,876	€3,912	478%	19%	€29,563
25% Growth	€13,970	€6,985	€139,698	€5,657	735%	24%	€37,375
30% Growth	€20,679	€10,339	€206,788	€8,132	1,101%	28%	€47,754

\*Assuming Purchase Price €675

## Adyen's Upside Catalyst: A Growing Cash Hoard to Fuel Buybacks



● Adyen's Net Cash (€ Millions)

# The Adyen Buyback Scenario

## 10-Year Scenarios for Adyen With Share Buyback Program

Growth Assumptions	2023 Revenue (M)	2023 Free Cash Flow (M)	Market Cap at 20x FCF (M)	Share Count	Share Price	Total Return*	Annualized Return
20% Growth	€9,288	€4,644	€92,876	15.8	€5,885	769%	24%
25% Growth	€13,970	€6,985	€139,698	15.8	€8,852	1,207%	29%
30% Growth	€20,679	€10,339	€206,788	15.8	€13,103	1,835%	34%

\*Assuming Purchase Price €675

- Adyen could follow the PayPal playbook, by maintaining a zero net cash balance and funneling excess free cash flow into share buybacks each year.
- This capital allocation strategy could reduce Adyen's share count by 50% over the next decade, while still maintaining a pristine balance sheet with zero net debt.
- Under the same original assumptions as before, adding this buyback strategy could bring Adyen's potential compounded returns up to the mid-20% to mid-30% range over the next decade.

**“The best business is a royalty  
on the growth of others,  
requiring little capital itself”**

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WARREN BUFFETT