THE BIG SECRET ON WALL STREET

The Big Long

- How to Profit From America's Decades-Long Infrastructure Boom
- This Company Unlocks Premium Pricing Power From Selling Commodities

FROM THE DESK OF PORTER STANSBERRY

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How to Profit From America's Decades-Long Infrastructure Boom

This Company Unlocks Premium Pricing Power From Selling Commodities

"I can't f***ing believe this is allowed."

... so muttered fund manager Steve Eisman "a thousand times" as he uncovered layer after layer of fraud and deception permeating America's housing market between 2006 and 2007.

Eisman was no stranger to financial chicanery. He got his start on Wall Street analyzing the shady underbelly of American finance – subprime-mortgage lenders, a business model built on making home loans to borrowers at high risk of not repaying their debts.

Eisman made a name for himself by doing something most Wall Street analysts shy away from – advising his clients to "sell" instead of "buy." And he did it with no reservations. He once walked into the middle of the trading floor at Oppenheimer & Company (where he worked as an analyst) and made an announcement: "The following eight stocks are going to zero." He listed the eight companies, all of which eventually went bust.

The problem was, Eisman's cynicism didn't help drum up much business for the investment banking firm he worked for. They were in the business of helping corporations raise capital – not bash their stock prices. So in 2004, Eisman launched his own hedge fund, FrontPoint Partners. He was then free to bet against bad business models instead of simply writing reports about their inevitable demise. His previous experience with subprime lenders in the 1990s made him the perfect candidate to bet against what became the mother of all manias: the subprime-housing bubble of the early 2000s.

The Big Secret

This company's distribution advantage unlocks premium pricing power from a commodity product by meeting the needs of its customers. It's the most powerful feature of its business model, and one that most investors don't fully appreciate, but that should drive high profit margins over the next decade.

When Eisman was analyzing subprime lenders in the 1990s, they were a tiny piece of the overall mortgage market. Back then, $30 billion a year in new subprime loans was a big deal. But by 2000, that number surged to $130 billion, before ballooning to $625 billion in 2005. Eisman knew that a lot of bad loans were being made, and that the companies making them would eventually go belly-up.

Eisman bet against the subprime-mortgage craze by shorting stocks like New Century Financial – one of the leading originators of subprime mortgages. But the reward did not necessarily outweigh the risk. The most Eisman could make was 100% if a shorted stock went to zero. Even those profits got eaten away, as short sellers had to pay a 20% dividend to the shareholders they borrowed stock from in order to bet against it. Plus, short sellers had to pay a 12% interest rate along the way. This meant Eisman had to shell out $32 million per year for the privilege of holding a $100 million short position. Meanwhile, if the shares increased in value, he faced the prospect of unlimited losses.

Then in February 2006, a Deutsche Bank trader named Greg Lippmann introduced Eisman to a different way of betting against the subprime-mortgage market. Credit default swaps ("CDS") provided a form of insurance against a subprime-mortgage meltdown. They offered the ability to bet directly against the subprime loans being issued, instead of against the companies that were making the loans.

The upshot was that buying CDS contracts could produce returns of as much as 1,000% on an original investment. The lopsided return proposition stemmed from the fact that the banks selling the insurance contracts had grossly mispriced the odds of a subprime bust. Eisman was elated, describing the conversation he had with trader Lippmann:

> *"When he walked in and said you can make money shorting subprime paper [from buying CDS contracts], it was like putting a naked supermodel in front of me."*

Over the next 18 months, Eisman and his crew explored the underbelly of Wall Street's subprime machinery. He learned how Wall Street, with help from the ratings agencies, packaged low-grade mortgages into AAA-rated fixed-income securities known as mortgage-backed securities ("MBS"). And how even lower-quality bonds were packaged into collateralized debt obligations ("CDO"). The credit default swap contracts he purchased provided a way to profit if these loans went bust.

The deeper Eisman dug, the more incredulous he became. For instance, he learned that bonds were being made from mortgages, known as "no-doc" loans, for which no documentation was required about the borrower's job history, income, or assets. As Eisman explains...

> *"The first time I realized how bad it was, was when I said to Lippmann, 'Send me a list of the 2006 deals with high no-doc loans... I figured Lippmann was*

> *going to send me deals that had 20% no docs. He sent us a list and none of them had less than 50%.*"

That meant that half of all mortgages were being granted to borrowers who provided no proof of their ability to repay the loans. This lack of oversight is how Wall Street's subprime machinery allowed borrowers to take out more money than they could ever repay. Eisman discovered loans like one made to a strawberry picker in Bakersfield, California, who had income of $14,000 per year, and yet was able to secure a loan to purchase a $724,000 house.

Early on in the housing boom, these loans didn't go bust because borrowers paid rock-bottom interest rates for a short period – before the rates contractually reset at higher levels a few years down the road. Before then, though, with home prices rising, borrowers could refinance for more than the original value of the property, receiving a cash infusion that enabled them to keep making their monthly payments. It was a perfect Ponzi scheme – homeowners, mortgage issuers, and investment bankers would all get rich if home prices kept moving higher.

But Eisman figured it was only a matter of time before home prices peaked, and interest rates reset at higher levels, triggering a wave of defaults. It was obvious, he thought – why could no one else see what's coming?

What kept the bubble from bursting was the complicity of the ratings agencies.

Eisman discovered how corrupt the ratings agencies had become in facilitating the sale of these subprime mortgages through mortgage-backed securities. The agencies rated a substantial portion of bonds as AAA, or as good as U.S. Treasuries, based on a series of what proved to be ludicrous assumptions they plugged into their ratings models.

After personally meeting with analysts at the ratings firms, Eisman learned that the models used to rate bonds assumed borrowers' ability to pay back the loans would be unaffected by their mortgage rates resetting at higher levels. He also learned that the models had no input for a drop in home prices. They assumed, like many on Wall Street, that U.S. housing prices couldn't go down. Eisman was shocked by each new revelation, as he recalled:

"I cannot f***ing believe this is allowed. I must have said that one thousand times."

Along the way, in typical Eisman fashion, he didn't hesitate to express his views on the situation. During a financial conference in Hong Kong, the chairman of HSBC bank claimed that the losses in his bank's subprime portfolio would be "contained." Eisman stood up from the audience and responded, "You don't actually believe that, do you? Because your whole book is f****d."

Eisman couldn't believe how even the supposedly "smart money" sitting at the top of the global financial system was sleepwalking into disaster. And he grew giddy about the prospect of cashing in on their ignorance. As he explained the situation to a coworker, he said:

> *"It's a gold mine. And nobody else knows about it."*

By January 2007, Eisman (pictured below) had placed an all-in bet on what he expected to be a housing armageddon. His fund had purchased $550 million in credit default swaps against subprime-mortgage bonds, believing that the bonds would quickly lose value. By June 2007, subprime-mortgage bonds began selling off slowly, and then suddenly. FrontPoint's positions began moving up in value by hundreds of thousands of dollars each day, and then by millions.

Over the following year, these positions produced a windfall for his fund investors as the subprime-bond market entered into freefall. Eisman's fund ballooned to $1.5 billion, netting his investors $1 billion in profits.

Today, Eisman is more optimistic about the future of the U.S. economy – going long more often than he shorts. In particular, there's one major theme that he's betting heavily on, which we'll dive into in this issue.

Eisman's Next Act: The Big Long

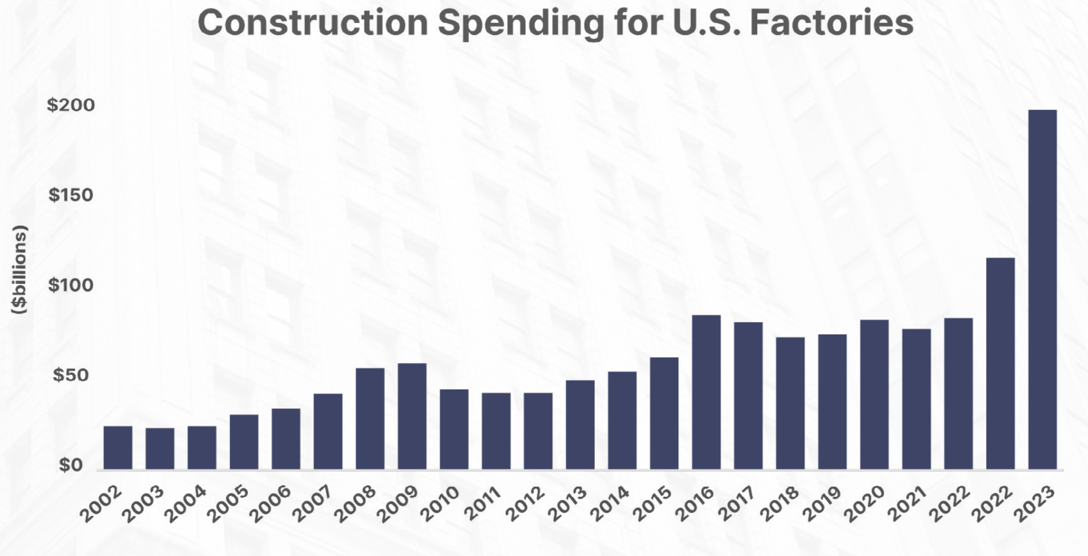
In a June 2023 interview on the Bloomberg *Odd Lots* podcast, Eisman made the case for what we're calling the Big Long, in reference to the 2015 *Big Short* film that profiled a group of fund managers, with Eisman as a major character, who profited from the collapse of the housing market in 2007-2008.

Eisman believes there are huge profits to be made from the record influx of capital reshaping and revitalizing America's industrial infrastructure over the next decade. This includes $2 trillion in stimulus spending from the federal government, plus trillions more from the private sector.

The first big theme driving this trend is the rise of onshoring, which involves U.S. manufacturers bringing their overseas operations back home. This trend began gathering momentum in 2018 after the Trump administration imposed a series of tariffs and import duties that upped the cost of outsourcing U.S. manufacturing to China.

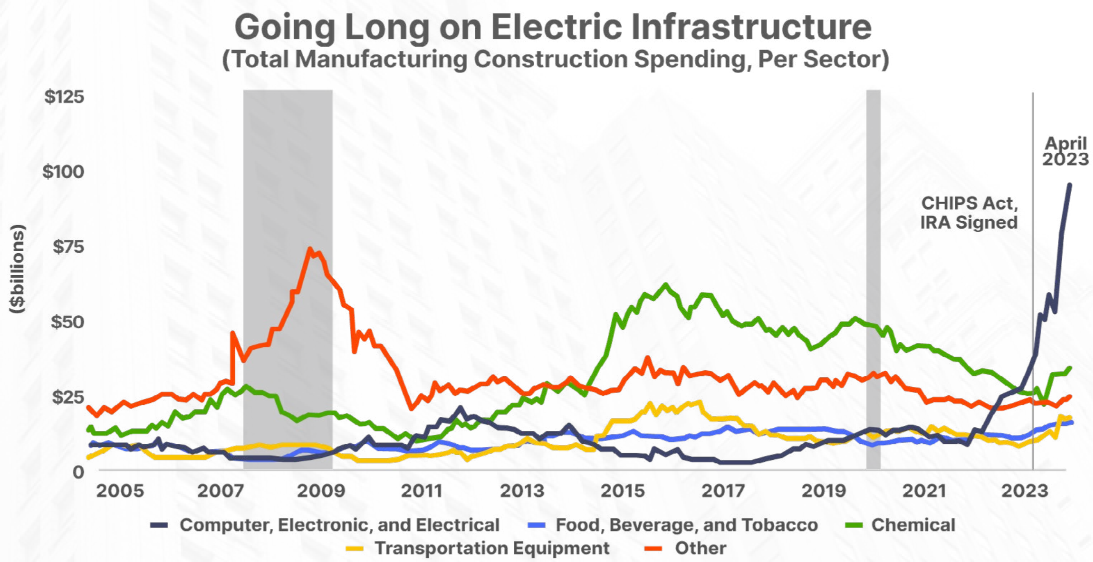
The COVID-19 outbreak and economic turmoil that resulted massively accelerated this trend. The pandemic-driven supply-chain disruptions revealed the extreme reliance U.S. corporations had on overseas suppliers, for everything from computer chips to pharmaceuticals.

As a result, U.S. companies across many industries are pouring record amounts of capital into domestic manufacturing facilities. In the last three years alone, $500 billion of investment has gone into new U.S. factory construction, compared with about a total of $200 billion over the previous three-year period:



Source: Census Bureau November and December 2023 are estimates

Within this manufacturing bonanza, one area in particular is benefitting the most – investment into computers, electronics, and electrical power transmission:



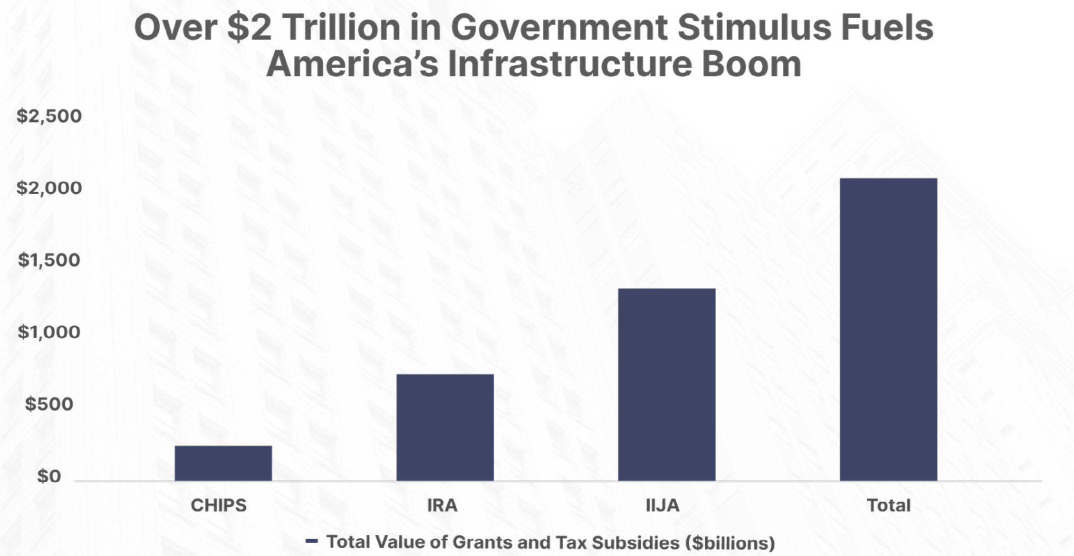
Three major factors are driving the building boom in this sector:

1. The rise of electrified transport (i.e., electric vehicles and charging stations) and "green" power generation (i.e., solar and wind power).

2. The artificial-intelligence ("AI") revolution that's fueling a boom in U.S. semiconductor manufacturing and data-storage centers.

3. The dire need to overhaul America's flailing electric grid in response to the massive new electrical infrastructure needs from the two trends noted above.

We'll dive deeper into each of these three segments later. For now, the key is that all of these trends are being turbocharged by $2 trillion in federal grants and incentive programs launched in 2021 and 2022. These include the $280 billion CHIPS and Science Act ("CHIPS"), the $579 billion Inflation Reduction Act ("IRA"), and the $1.2 billion Infrastructure Investment and Jobs Act ("IIJA"):



Source: Bloomberg

Together, these three pieces of legislation represent the largest infrastructure stimulus program in American history. And we're still in the very early stages of this infrastructure bonanza, with most of this money still slated to be allocated over the next decade.

In this issue, we're recommending our best idea for capitalizing on this decades-long infrastructure boom.

Selling the Components That Make It All Possible

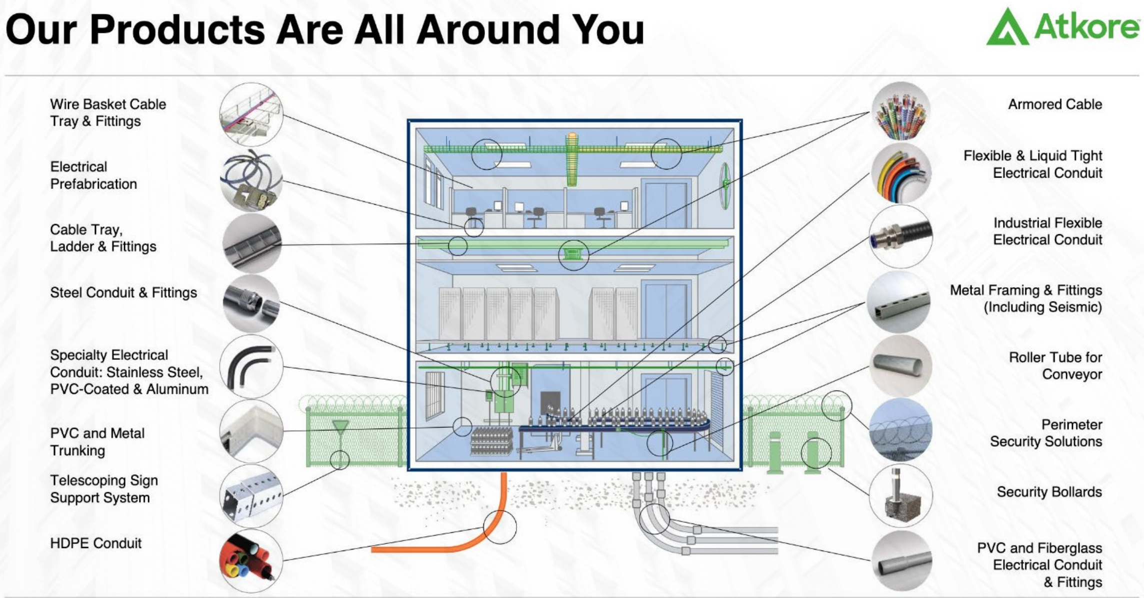
The company we're recommending in this issue is **Atkore (NYSE: ATKR)**, a leading manufacturer of electrical components used in construction and manufacturing.

The company separates its business into two segments: Electrical, and Safety & Infrastructure. Last year, Atkore generated $3.5 billion in revenue: $2.7 billion from its Electrical segment and $844 million in Safety & Infrastructure.

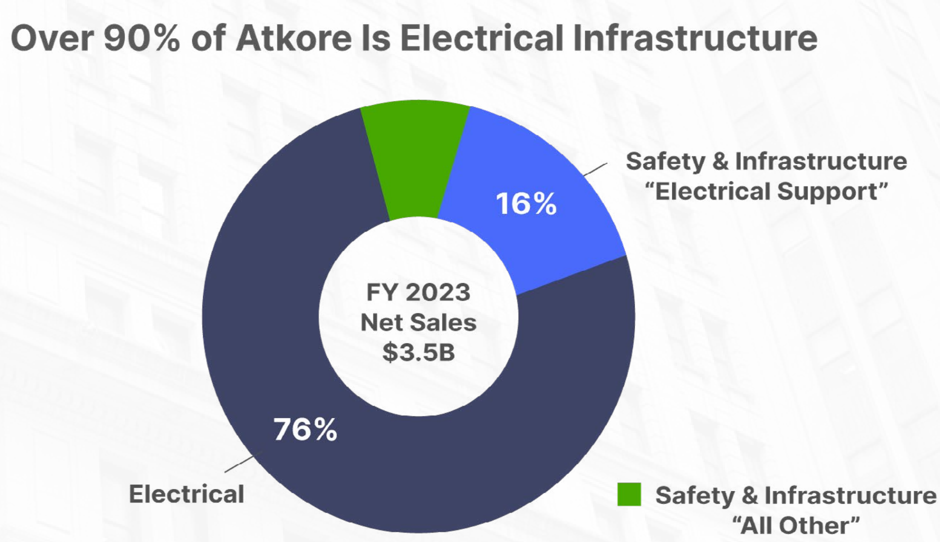
In Electrical, Atkore manufactures things like power systems, breaker boxes, electrical wiring, and plastic conduits, which is the protective tubing used to insulate electrical wiring. It also sells electrical mounting systems and installation accessories used for securing electrical products to a building's structure. Finally, this segment also includes fiber-optic cable and conduit and mounting systems for high-speed internet and telecommunications.

In Safety & Infrastructure, Atkore manufactures metal framing, fittings, and mechanical tubing used for support structures and conduits. It also sells perimeter security products, like chain-link fences and barbed wire, as well as cable management systems.

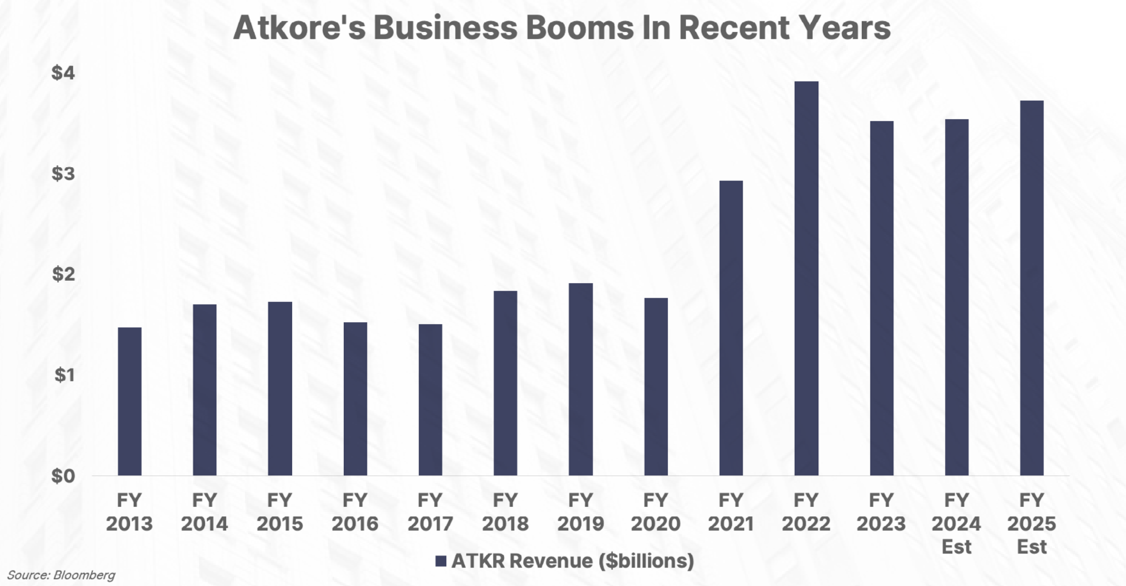
The graphic below shows a snapshot of the many different products it supplies across all of these different applications:



It's important to note that many of Atkore's Safety & Infrastructure products are used for electrical infrastructure. This includes things like wire-basket cable trays and steel tube conduit, both of which are used to support and protect electrical cables. This overlap in terms of end market consumption means that over 90% of Atkore's sales are used for electrical infrastructure:



Given Atkore's exposure to the fastest-growing segment of U.S. infrastructure spending, business has boomed in recent years. Revenue doubled from $1.9 billion in the 2019 fiscal year (which ends September 30) to $3.9 billion by 2022, before falling to $3.5 billion in 2023.



Source: Bloomberg

A retreat in the inflation-driven price increases for construction materials caused Atkore's 2023 revenue decline. When the flood of stimulus money began pouring into infrastructure spending from 2021 to 2022, it bumped into pandemic-era labor shortages and supply-chain disruptions. This triggered significant price inflation in construction costs that boosted Atkore's revenues. Then, as the labor market and supply chains began normalizing in 2023, prices retreated, causing a decline in both revenue and profit margins.

However, as we'll show later, Atkore has maintained substantial pricing power thanks to a powerful competitive advantage in its business model. But first, let's dive deeper into the key market trends that will fuel massive demand for Atkore's products, and continued revenue growth for at least the next decade.

The EV and AI Revolutions Provide a One-Two Punch

One major driver of electrical infrastructure demand will come from the electric-vehicle ("EV") revolution.

Despite our bearish view on the share price of the leading U.S. EV maker, Tesla, there's no denying that the broader EV revolution is here to stay. The federal government gave EVs a major push forward with the $1.2 trillion IRA legislation, which authorized a $7,500 tax credit for eligible EVs purchased through 2032.

Because of the generous government handouts and tax incentives at both the state and local level, financial services firm S&P Global expects EVs will make up 40% of new vehicle sales by 2030. That's a five-fold increase from the 8% market share EVs achieved last year. The firm also expects the total number of EVs on the road will reach 27 million, up 10-fold from around 2.5 million currently.

This increase in EVs means the number of electrical charging stations will also need to increase by a similar amount. According to analysis from consulting firm PricewaterhouseCoopers, the number of EV charging stations in the U.S. will need to grow from around 4 million currently to 35 million by 2030.

Demand for Atkore's electrical products has risen alongside the growing demand for EV chargers. And it's poised to continue expanding rapidly alongside the rising demands of EV charging, as management explained at a conference with investment analysts in 2023:

> *"It doesn't matter what EV charger. What I can guarantee you is there will be electrical lines, cable, conduit hooking up to that. So no matter what product gets installed, our products will be carried along with that, all the different infrastructure."*

Next, there's the growing demand for power generation from the AI revolution. A recent analysis from the International Energy Agency ("IEA") showed that the average ChatGPT AI query consumes nearly 10x the energy as a typical Google search. The agency expects power demand from the AI boom to increase at least 10-fold between 2023 and 2026 alone. Other experts have projected that data-center power demand will consume roughly 25% of all U.S. electricity over the next decade, *up from just 4% currently*.

The problem is, new data centers are popping up faster than new power plants. As a result, data-center construction is facing significant delays due to lack of electricity to feed their energy-hungry operations. Commercial real estate firm CBRE recently reported that project timelines for data centers have been extended by two to six years due to lack of power – in some cases doubling the construction timeline.

The Largest Electric-Grid Overhaul in Generations

In order to meet the ravenous power demands for the EV and AI revolutions, experts project that the U.S. will need to bulk up its electricity transmission capacity by 60% through 2030. This will require a massive undertaking, especially considering that U.S. power generation has remained flat for the last 15 years. As a result, the U.S. electric grid is on the verge of its biggest overhaul in generations.

In October 2023, the Biden administration announced the largest-ever investment into upgrading the country's electric grid. The IIJA and IRA legislation granted $30 billion to the Department of Energy to invest in 58 projects across 44 states, all dedicated to beefing up America's electrical grid.

But this is just a small drop in the massive bucket of investment that will be required in the coming years. The investment needs go beyond simply building more power stations and electrical wiring. The U.S. electric grid is old and antiquated. Nearly 70% of the U.S. power transmission infrastructure is over 25 years old. Another problem is that most power lines that move electricity through the grid were installed above ground. While this made for a cheaper upfront installation cost, it's turned into a massive long-term liability.

Consider the situation in California, where overgrown trees routinely knock over power lines and spark devastating wildfires. Pacific Gas & Electric (PG&E), one of the country's largest utilities, has been plagued by a series of destructive wildfires caused in part by trees falling into its air-suspended power lines. This includes the 2018 Paradise fires that killed 85 people and destroyed over 18,000 structures. PG&E filed for bankruptcy protection in 2019 after racking up $30 billion in damages for fires attributed to its electrical equipment.

The reorganized entity that emerged from bankruptcy protection is now proposing a massive $5.9 billion investment into burying 10,000 miles of power lines over the next decade. That's just one utility company. Similar efforts are underway across the country, including in Florida, where hurricane winds routinely destroy above-ground power lines – cutting off electricity for large swaths of the population.

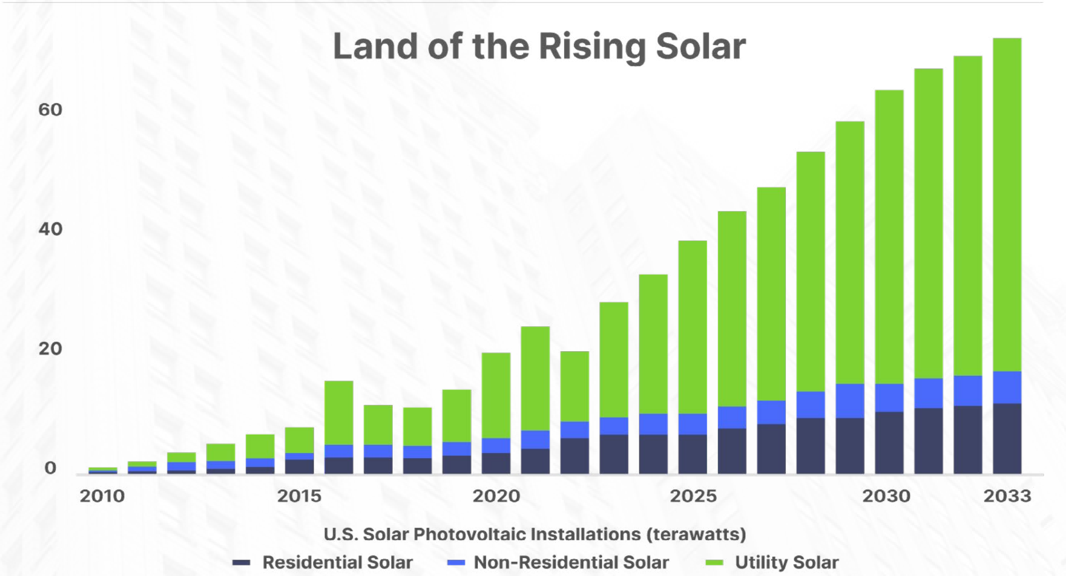
This process of burying power lines, known as "grid hardening," will require a huge investment of between $200 billion and $300 billion over the next decade. These buried power lines will require the protective PVC conduit Atkore makes to keep underground wiring insulated and protected against the elements.

Atkore is the number-one supplier of PVC conduit in the U.S. Thus Atkore will become one of the major beneficiaries from the tens of thousands of miles of power lines installed underground over the next decade.

Demand for American-Made Solar Equipment Doubles Overnight

In Atkore's Safety & Infrastructure segment, one key product segment includes torque tubes, a component for solar power installations. These cylindrical metal tubes run along the axis of solar arrays, allowing the panels to tilt and rotate to maintain the proper angle with the sun. By providing the maximum exposure to sunlight, these torque tubes are critical for optimizing the efficiency of solar energy generation.

Because the Biden administration and environmental groups are advocating for a greater reliance on alternative energy, massive sums of money are pouring into this industry. Fueled by generous government subsidies, including a boost from the IRA legislation, solar-power installations will more than double over the next decade:



Source: Wood Mackenzie

But the growth in U.S. solar installations is only half the story fueling the demand for Atkore's torque tubes. As part of the IRA legislation, the Biden administration provided a series of tax and other regulatory incentives that heavily favor the domestic manufacturing of solar-energy components, including torque tubes.

Prior to these IRA incentives, a substantial portion of U.S. torque tubes were manufactured overseas, mostly in China. After the IRA legislation became law in August 2022, the economics simply don't make sense for overseas manufacturers. As a result, the market for domestically produced torque tubes doubled overnight, as management explained in its Q1 2024 earnings call:

> *"With the Inflation Reduction Act, it should move all the [torque tube] volume into the states, which is a great thing for the U.S. and its economy... even if the solar market did not grow..., this doubles the amount of [domestic] solar torque tubes. And right now, I don't think that capacity exists by anybody out there."*

With a doubling in U.S. solar-power installations over the next decade, plus a doubling in the market share for domestic suppliers, Atkore's torque-tube business is booming. And it was perfectly positioned for this growth spurt. A year before the IRA legislation passed in August 2022, Atkore was already putting money to work expanding its torque-tube capacity. In May 2022, it expanded its Phoenix, Arizona, manufacturing facility to add two new production lines for solar torque tubes. The company is also investing in its Hobart, Indiana, plant to produce more solar torque tubes and other metal tubing products.

The Broadband Boost

Another key demand driver for Atkore's is in the flexible conduit made from a polymer plastic known as High Density Polyethylene ("HDPE"). HDPE is used primarily as a protective material for fiber-optic cable used in telecommunications, internet, and data-center applications.

From December 2021 to November 2022, Atkore acquired four leading U.S. manufacturers of HDPE conduit, plus another company specializing in HDPE recycling. Atkore went from zero to the second-largest HDPE conduit supplier in the U.S. within just two years.

As it made these acquisitions, HDPE conduit demand was already growing rapidly, thanks to the expansion in 5G wireless internet and the AI-created boom in data-center demand. But the market received another massive boost in June 2023 when the Biden administration announced $42 billion in federal funding for high-speed internet expansion throughout the U.S. as part of the IIJA legislation.

This will be the largest-ever investment into expanding high-speed internet access – with the government aiming to bring reliable broadband to an additional 8.5 million households and small businesses. All of these new internet connections will require fiber-optic cable, and those cables will require protection in the form of HDPE conduit. As the second largest HDPE conduit supplier in the U.S., Atkore will benefit from this new source of demand.

The total market size in HDPE conduit today is roughly $7 billion, a figure that Atkore estimates will double over the next five years alone.

Across all of Atkore's product segments, the company estimates its total addressable market size is around $40 billion. And given the massive long-term growth trends across virtually every major business line, this will no doubt explode in size over the next decade and beyond.

Atkore's Trifecta: Growth + Margin Expansion + Share Count Reduction

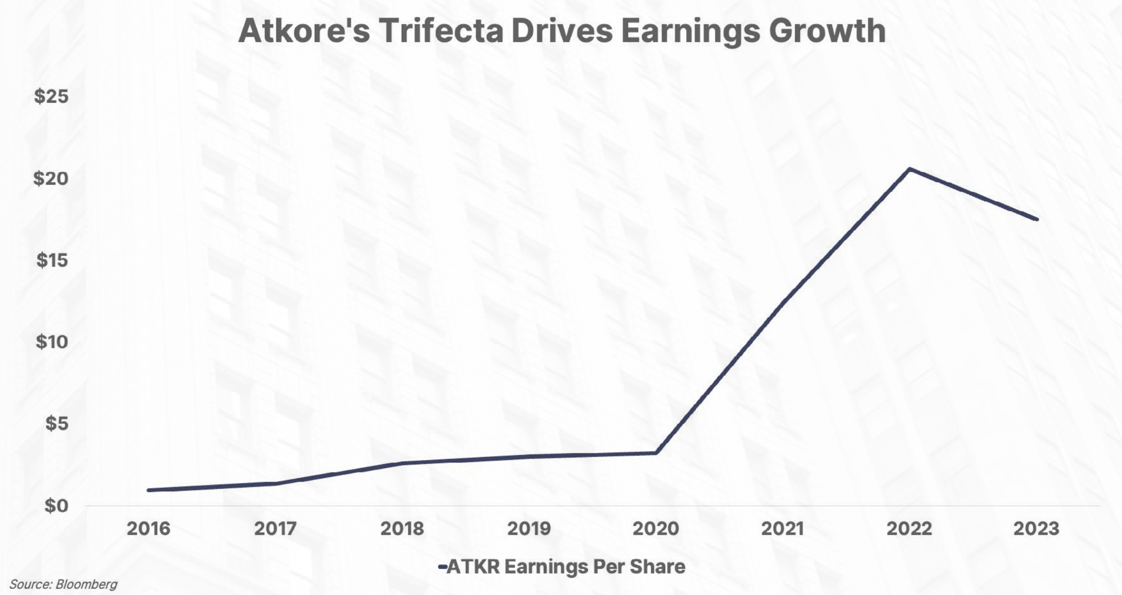
From an investor perspective, growth is only a small part of the Atkore opportunity. The potential returns from this business go well beyond the rate of revenue increases.

Consider the following…

Since Atkore's 2016 IPO through last year, revenue grew 133% from $1.5 billion to $3.5 billion, about 13% annually. A decent result, but nothing extraordinary. However, over that same time period, the company's share price has delivered a massive 1,092% total return. This compares with a 186% gain in the S&P 500 over the same period.

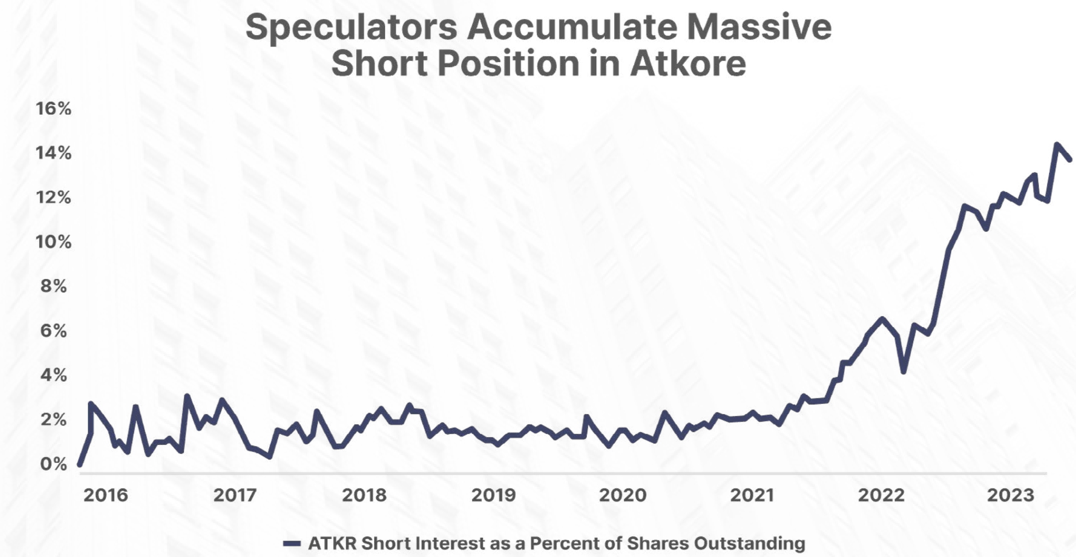
The key factor behind the remarkable rise in the share price is the fact that the business has become increasingly more profitable and more capital efficient since 2016. Profit margins have increased nearly five-fold, from 4% in 2016 to 19% today. Free cash flow ("FCF") margins have nearly doubled from 9% to 17%. Atkore has returned that growing FCF into share buybacks, reducing its share count by 40%, from 62 million in 2016 to 37 million currently.

The trifecta of revenue growth, margin expansion, and a falling share count has boosted Atkore's earnings per share by nearly 20-fold, from $0.94 in 2016 to $17.50 last year.



Now here's where things get interesting. Despite this incredible improvement in the business fundamentals, the market has given little respect to Atkore. The shares currently trade at around 10x earnings, or a 50% discount to the S&P 500's 20x earnings multiple.

Meanwhile, speculators have accumulated a massive short position in Atkore's shares, equal to nearly 14% of the shares outstanding:



Source: Bloomberg

The speculators' view, as far as we can tell, is that Atkore's expanding profit margins since 2019 were a one-off result of pandemic-driven supply constraints. Going forward, bears expect that Atkore's profit margins will return to pre-pandemic levels now that supply chains have normalized. In this scenario, Atkore's earnings could suffer a 65% drop as profit margins fall from 19% now to 2019 levels of around 7%.

However, as we'll show in the next section, we believe the bears are mistaken and that Atkore's industry-leading profit margins are here to stay.

The Danaher of Electrification

The secret to Atkore's growing profitability lies in a set of operating principles known as the Atkore Business System ("ABS"). That name might ring a bell, as it bears a striking resemblance to the Danaher Business System ("DBS"), which we wrote about in our **March 22 recommendation of buyout firm Danaher**. That's no coincidence. The man who developed the ABS, John Williamson, spent over a decade at Danaher before becoming Atkore's CEO from 2011 to 2018.

ABS incorporates many of the same principles that made Danaher one of the greatest wealth compounders of all time. This includes using the *kaizen* manufacturing principle of making continuous operational improvements to minimize waste, boost profit margins, and improve customer service.

But Atkore's biggest competitive advantage has come from replicating Danaher's acquisition playbook. Specifically, following the strategy of acquiring a group of the leading brands in the same or similar industry segments, as we described in our Danaher recommendation.

Since going public, Atkore has made 18 acquisitions. This includes bulking up business lines it already participated in, like PVC conduit. Through four acquisitions since 2016, Atkore has become the number-one market-share leader by a wide margin. It now has 10 PVC manufacturing plants, compared to just four for its next closest rival. This gave Atkore an unmatched distribution footprint, with a PVC plant within 500 miles of every customer across the country.

Likewise, when Atkore entered the HDPE conduit market with its first acquisition in December 2021, it quickly scooped up three additional manufacturers – taking it to the number-two market-share position within just two years.

Across all major business lines, Atkore now holds the number-one or two market-share position.

This growing scale creates several key advantages. First, it allows Atkore to buy materials in larger quantities, and thus reducing costs. Second, the growing concentration of facilities reduces the distance between Atkore and its customers. Since many Atkore products are large, bulky items, this reduces transportation costs.

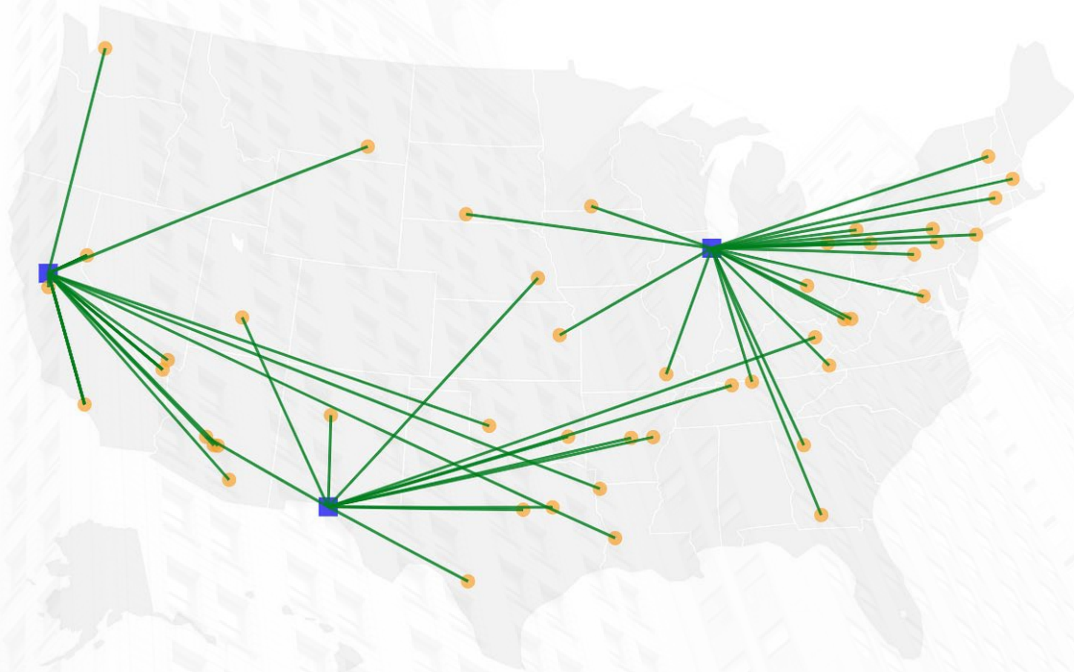
But reducing costs through economies of scale is fairly commonplace – all of Atkores competitors do the same. What sets Atkore apart is that it has found a way to lower its customers' operating costs. This, in turn, has allowed it to charge premium prices and generate sustainability higher profit margins than the competition.

In order to understand how this works, we must first understand the ecosystem of competitors and customers that Atkore operates within.

Gaining Pricing Power in a Commodity Business

The vast majority of Atkore's sales (83%) are made to large-scale electrical-parts distributors. These distributors buy products from manufacturers like Atkore, and then resell them to the end customers for use in construction projects.

Most of these distributors use what's known as a hub-and-spoke distribution system. In this system, distributors stockpile inventory in large warehouse hubs, then feed products through a series of smaller distribution warehouses. From there, distributors sell products to the end customer, typically construction firms and contractors.



Atkore separates itself from its competitors in that it can bypass sending products to the hubs of its customers' distribution centers, and instead ships products directly into the smaller warehouse locations. It achieves this through what it calls a “one order, one delivery, one invoice” service, which packages multiple products – up to seven at a time – onto a single truckload for delivery.

This bundling feature allows Atkore to economically ship smaller quantities of materials, instead of sending a full truckload of a single product. In this way, Atkore still retains the economic benefit of transporting full truckloads of materials. But it enables its customers to receive those items in the smaller quantities needed to avoid overwhelming their smaller distribution warehouses.

Conversely, Atkore’s top competitors typically ship full truckloads of single products at a time, because they don’t offer the same breadth of product offerings. Thus, these competitors are forced to send these large, single product shipments into the hubs of their customers’ distribution systems.

Shipping directly to the smaller facilities is much more valuable for distributors, because it eliminates their cost of moving products from hubs to their smaller warehouses. This also allows distributors to avoid tying up their precious capital into stockpiles of excess inventory that sit unsold at their distribution hubs for weeks or months at a time. By delivering products to a higher value location for its customers, Atkore has achieved five to seven percentage points of additional pricing power for the same products it used to sell in bulk on a single truckload.

And that's the big secret about Atkore: its distribution advantage unlocks premium pricing power from a commodity product. It's the most powerful feature of its business model, and one that most investors don't fully appreciate. As Atkore CEO Bill Waltz explains:

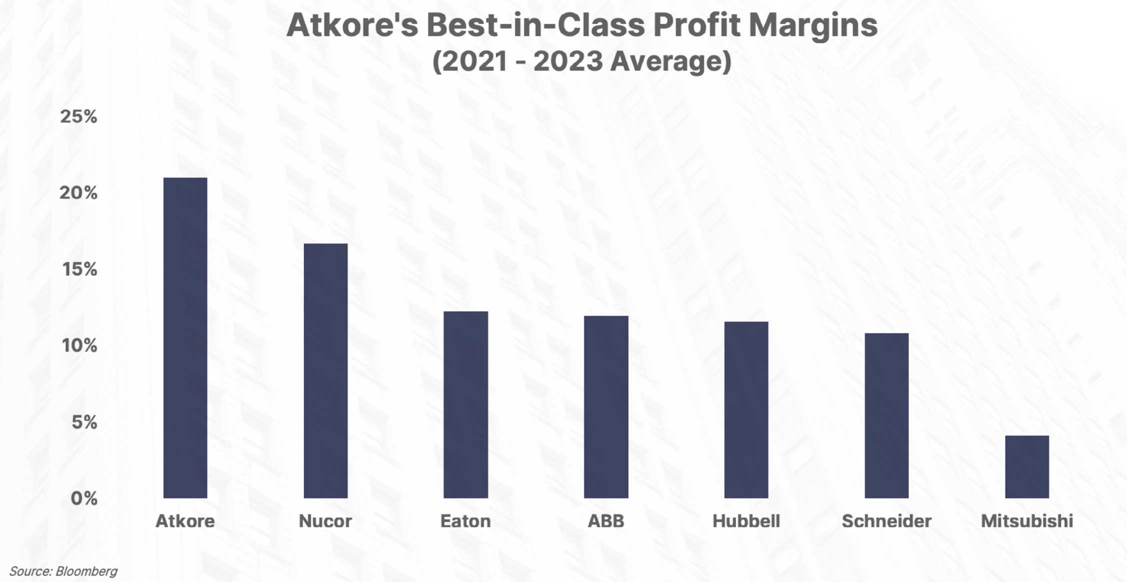
> *"And I do think if there is one thing that's misunderstood with Atkore from an investor perspective, it is that 'one order, one delivery, one invoice.'... Our products are so big and bulky that these small distribution locations don't have the space or are really space constrained to bring a truckload of steel conduit or a truck load of PVC. So where we can combine all those products together on one truckload, it reduces their inventory, reduces the freight expense, and reduces the space they need for those products."*

Atkore introduced its order bundling feature in 2019. Since then, its profit margins soared from 7% to 23% during the peak of inflation-driven pricing gains in 2022, before falling to a still-impressive 19% last year.

This brings us back to the short-sellers' bearish argument on Atkore – that its recent gains in profit margins came from a one-time pandemic-driven surge that will dissipate. The truth is, the inflationary outbreak in construction materials has already passed. After reaching highs of over 30% inflation per year in 2021 and 2022, prices for construction materials entered into deflationary territory in November 2022, and have remained roughly flat since then. And yet, Atkore has maintained its profit margins at permanently higher levels.

Source: U.S. Bureau of Labor Statistics

For a final perspective on profit margins, let's consider Atkore versus its top competitors. All of the construction-supply companies enjoyed the same pandemic-driven surge in pricing and profitability. So by comparing Atkore's profit margins versus its top competitors from 2021 to 2023, we can eliminate any distortions from macro trends. When we do this, it's clear that Atkore enjoys a meaningfully higher margin advantage versus its key competitors:



Looking ahead, all signs indicate Atkore's industry-leading profit margins are here to stay.

An Enduring and Growing Competitive Advantage

The reason Atkore will maintain its competitive advantage lies in the differentiated approach it's taken in organizing its business. Atkore has strategically acquired a portfolio of products designed to cater specifically to the major distributors of electrical construction products.

That is, the company has pursued what's known as horizontal integration – acquiring a collection of businesses designed to sell different products into the same end market. Conversely, Atkore's major competitors have all pursued vertical integration – they've built their businesses around fully integrating various stages of the production process into making the same product.

Consider steel producer Nucor, which is Atkore's largest competitor selling metal framing, cable, and conduit products to electrical equipment distributors. Nucor has focused on vertically integrating every step in the steel-making process, turning the raw minerals of iron ore, limestone, and coal into finished products. This vertical integration makes Nucor the largest and lowest-cost steel manufacturer in America.

This means that Nucor can produce things like steel framing and conduit cheaper than Atkore can. But it can't deliver the same value that Atkore delivers to its customers, because it can't bundle multiple products and get these products to their highest-value location as efficiently as Atkore.

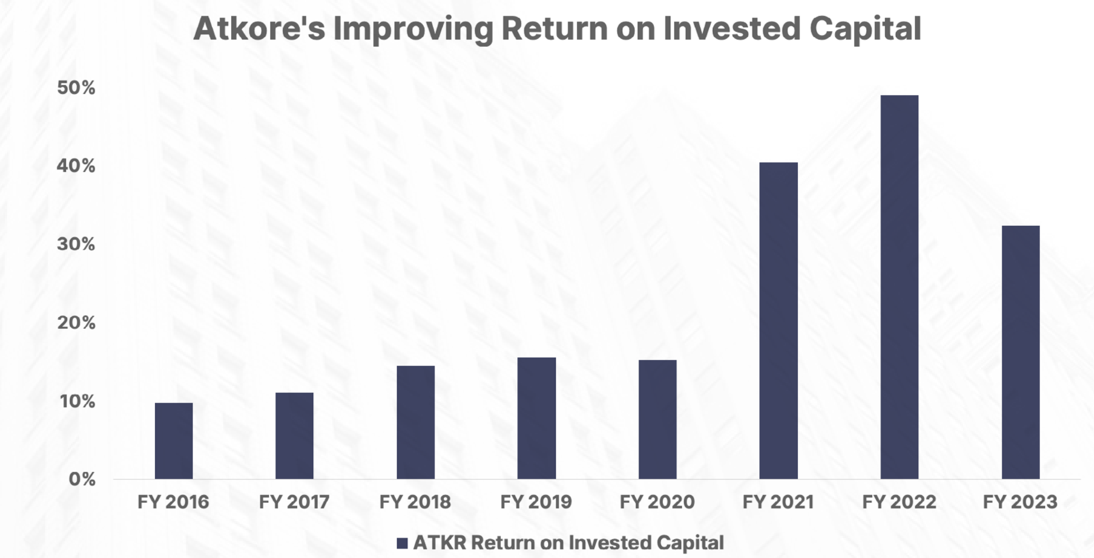
The same can be said of Atkore's other key competitors that are narrowly focused on PVC or HDPE conduit and electrical-cable wiring. Each of these businesses has invested around their individual products, versus Atkore's approach of investing around the needs of its key customers. And so far, none of Atkore's competitors have shown any desire to replicate its horizontally integrated strategy, as management has explained:

> *"The difference between Atkore and our competitors is that we are built around supplying the electrical industry. If you think of somebody like Nucor – a great company, but they're vertically integrated… I just can't imagine the general manager at Nucor going to the board of directors and going, 'hey, I had this opportunity to get into plastics.'…So, it's not even in their mindset."*

Even if Atkore's competitors changed their strategy in an attempt to replicate Atkore's business model, they would be starting from a significant disadvantage. Atkore has already consolidated the majority of markets it operates in, becoming number one or number two across its largest product segments. And it's continuing to invest aggressively in furthering its lead – as seen in Atkore's aggressive entrance into the HDPE market, where it rose to the number-two market-share leader in the span of just two years.

Finally, because Atkore has already established the dominant horizontally-integrated business model for electrical infrastructures supplies, it can afford to pay a premium when making an acquisition that its competitors can't justify. That's because Atkore can immediately incorporate acquired businesses into its bundled product offerings, and instantly realize pricing power over its non-horizontally integrated competitors.

From a shareholder perspective, Atkore's acquisitions are adding increasingly more value to its overall business by further expanding its distribution dominance and economies of scale. We can see this in Atkore's improving return on invested capital over time, which has more than tripled from 10% in 2016 to 32% last year:



Source: Bloomberg

Atkore's dominant market share and logistical advantage over its rivals will maintain its premium pricing power. Management expects the post-pandemic price deflation to bottom out this year, with margins stabilizing around 17%, which is well above pre-pandemic levels of 7%. Meanwhile, the company also expects revenue growth to resume at mid-single-digit rates in 2025, which, according to management, should translate into "at least $18 per share" of earnings next year.

Atkore's management team has a track record of under-promising and over-delivering. If Atkore can achieve this guidance, that means that at $170, shares trade at a deeply discounted price of less than 10x next year's earnings.

Over the next few years, we see significant upside in revenue growth from all of the major drivers discussed above. The U.S. is on the verge of the biggest ever upgrade in electrical infrastructure, driven by a confluence of the EV and AI revolutions, amplified by a massive federal stimulus program that will exceed $2 trillion over the next decade.

As a leading provider of the critical materials that will fuel this electrical-infrastructure boom, Atkore is perfectly positioned to benefit from this powerful trend.

Action to Take: Buy **Atkore (NYSE: ATKR)** up to $200 per share

New to the *Big Secret* Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each edition of *The Big Secret*, we highlight three current portfolio picks that are at an attractive buy point. In addition to today's recommendation, we suggest you focus on these:

1. **Burford Capital (NYSE: BUR)** is the leading global provider of litigation finance, managing a $7.1 billion portfolio of assets. Burford funds lawsuits and when it wins, it takes a cut of the payout. These cases can turn small investments into supersized pay days. Now, with the courts fully reopened in 2023 after the COVID-19 shutdowns, Burford's backlog of cases are beginning to come to trial and reach final judgment. Many of those judgments are in Burford's favor, with net income surging 55% to $610 million in 2023. Plus, there's additional upside from a multibillion-dollar ruling in Burford's favor that's not priced into shares today. See our recent Portfolio Update **here**.
2. **Franco-Nevada (NYSE: FNV)** – the **Gold Digger" That Gets Paid to Do Nothing** – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 56% free cash flow ("FCF") margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government shut down a large copper mine that is one of the company's largest royalty assets. The Cobre Panama mine contributed 20% of Franco-Nevada's revenue and 16% of net asset value in 2023. FNV shares have dropped 16% since August, effectively pricing in a total loss of the mine. Meanwhile, with the price of gold at all time highs, the rest of Franco-Nevada's portfolio is performing well. Still, the shares trade near their lowest valuation on record. (We provided more details of the latest developments in a recent **Portfolio Update**.)
3. **Philip Morris (NYSE: PM)** owns the international rights to Marlboro, the world's leading traditional tobacco brand. Over the last decade, the company has invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris'

smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 40% operating margins and a 24% average return on capital. It's also a recession-proof business, and trades at an attractive valuation of just 14x earnings, with a 5.7% dividend yield.

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

Ticker / Latest Update Link	Description	Entry Date	Cost Basis	Latest Close	Yield	Income Received	Total Return	Status / Risk Rating
EXPONENTIAL GROWTH								
TELL TELLURIAN	U.S. LNG Exporter	06/16/2022	$3.82	$0.39	N/A	$0.00	-89.88%	Buy Under $5 / 5
EVVTY Evolution UnSp ADR	Casinos & Gaming	11/30/2023	$103.87	$117.49	N/A	$0.00	13.11%	Buy Under $145 / 4
INMD INMODE	Medical Devices	01/11/2024	$21.19	$17.34	N/A	$0.00	-18.17%	Buy under $25 / 5
BUR BURFORD CAP NPV	Litigation Finance	02/08/2024	$14.36	$14.86	0.83%	$0.00	3.48%	Buy Under $20 / 4
CELH Celsius Holdings	Energy Drinks	03/07/2024	$89.56	$69.97	N/A	$0.00	-21.87%	Buy Under $100 / 5
CPNG Coupang Inc	E-commerce	04/04/2024	$18.32	$22.30	N/A	$0.00	21.72%	Buy Under $25 / 4
ATKR Atkore	Electrical Infrastructure	04/18/2024	$171.18	$171.18	0.75%	$0.00	0.00%	Buy under $200 / 4
HIGH YIELD								
PM Philip Mrrs Int	Tobacco Maker	07/14/2022	$89.62	$91.20	5.70%	$8.98	11.78%	Buy Under $105 / 1
VNOM VIPER ENERGY-A	Oil and Gas Royalty	09/01/2022	$29.68	$38.92	N/A	$2.71	40.26%	Buy Under $34 / 3*
BSM BLACK STONE MIN	Oil and Gas Royalty	02/16/2023	$15.90	$15.36	12.37%	$1.90	8.55%	Buy Under $18 / 2
BRW SABA CAP INM & OPP	High Yield Bond Fund	03/16/2023	$8.01	$7.15	14.27%	$1.23	4.56%	Buy Under $9 / 3
OCSL OKTR SPCLY LNDG	Specialty Investments	03/30/2023	$18.57	$19.48	11.29%	$2.27	17.12%	Buy Under $22 / 2
BETTER THAN THE MARKET								
SYLD CAMBRIA SHHLDR YLD	Yield Focused ETF	01/05/2023	$59.67	$68.83	3.00%	$1.82	18.39%	Buy Under $65 / 2
FOREVER STOCKS								
DPZ Domino's Pizza	Restaurants	02/27/2023	$300.00	$481.66	1.25%	$6.35	62.67%	Hold / 3
DE Deere & Co	Agricultural Machinery	08/31/2023	$410.94	$400.60	1.47%	$4.29	-1.47%	Buy Under $450 / 3
DEO Diageo Sp ADR	Alcoholic Beverages	12/14/2023	$145.72	$140.79	2.30%	$1.62	-2.27%	Buy Under $160 / 3
DHR Danaher	Medical Technology	03/21/2024	$254.11	$236.36	0.46%	$0.27	-6.88%	Buy Under $270 / 3
NKE NIKE -B-	Athletic Footwear & Apparel	04/18/2024	$95.74	$95.74	1.55%	$0.00	0.00%	Buy Under $100 / 2
HSY Hershey	Consumer Luxury Staples	04/18/2024	$184.86	$184.86	2.96%	$0.00	0.00%	Buy Under $200 / 2
ENERGY & COMMODITIES								
EQT EQT	U.S. Gas-Focused E&P	06/02/2022	$48.87	$36.22	1.74%	$1.07	-23.71%	Buy Under $50 / 4
BWXT BWX Technologies	Nuclear Power Equipment	12/22/2022	$58.05	$93.48	1.03%	$1.16	63.03%	Buy Under $10 / 3
BTC/USD Bitcoin	Cryptocurrency	05/11/2023	$27,011.85	$63,524.56	N/A	$0.00	135.17%	Buy Under $50,000 / 4
BTU Peabody Energy	Coal Mining	06/22/2023	$21.29	$24.09	1.25%	$0.23	14.21%	Buy Under $25 / 4
CNX CNX Resources	U.S. Gas-Focused E&P	09/28/2023	$22.82	$23.70	N/A	$0.00	3.86%	Buy Under $30 / 3
BATTLESHIP STOCKS								
CACC Credit Acceptanc	Consumer Finance	07/28/2022	$560.28	$536.40	N/A	$0.00	-4.26%	Buy Under $600 / 3
WINA Winmark	Specialty Apparel Stores	09/15/2022	$217.60	$366.00	0.87%	$17.00	76.01%	Hold / 1
NVO Nordisk Sp ADR-B	Pharmaceuticals	10/27/2022	$53.31	$122.75	1.51%	$2.55	135.06%	Hold / 2
FNV Franco-Nevada	Precious Metals Streamer	05/11/2023	$154.77	$121.67	1.19%	$1.74	-20.26%	Buy Under $125 / 2
PYPL PayPal Holdings	Payment Processor	07/20/2023	$73.02	$62.10	N/A	$0.00	-14.95%	Hold / Stop Loss at $50 / 3

PROPERTY & CASUALTY INSURANCE									
WRB W.R.Berkley		P&C Insurance	05/25/2023	$56.10	$80.98	0.54%	$1.44	46.92%	Buy Under $62 / 2
PGR Progressive (Ohi		P&C Insurance	06/08/2023	$131.08	$209.75	0.19%	$1.15	60.89%	Buy Under $160 / 2
CB Chubb N		P&C Insurance	06/08/2023	$191.60	$245.39	N/A	$3.44	29.87%	Buy Under $220 / 2
SKWD SKYWARD SPEC		P&C Insurance	06/16/2023	$24.66	$35.26	N/A	$0.00	42.98%	Buy Under $35 / 2

*Viper Energy (VNOM) pays out a $0.45 quarterly dividend for a 4.5% annual yield at $40 per share.

The Big Secret on Wall Street WATCHLIST

Ticker	Description	Latest Close	Initial Analysis	Yield	Status
PAYC Paycom Software	Buy Under $150	$184.87	01/26/2024	0.81%	Application Software
HD Home Depot	Buy Under $240	$332.89	11/10/2023	2.70%	Home Products Stores
SHW Sherwin-Williams	Buy Under $150	$309.38	04/14/2023	0.92%	Specialty Chemicals
ULTA Ulta Beauty	Buy Under $350	$425.11	09/15/2023	N/A	Specialty Retail

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC.	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

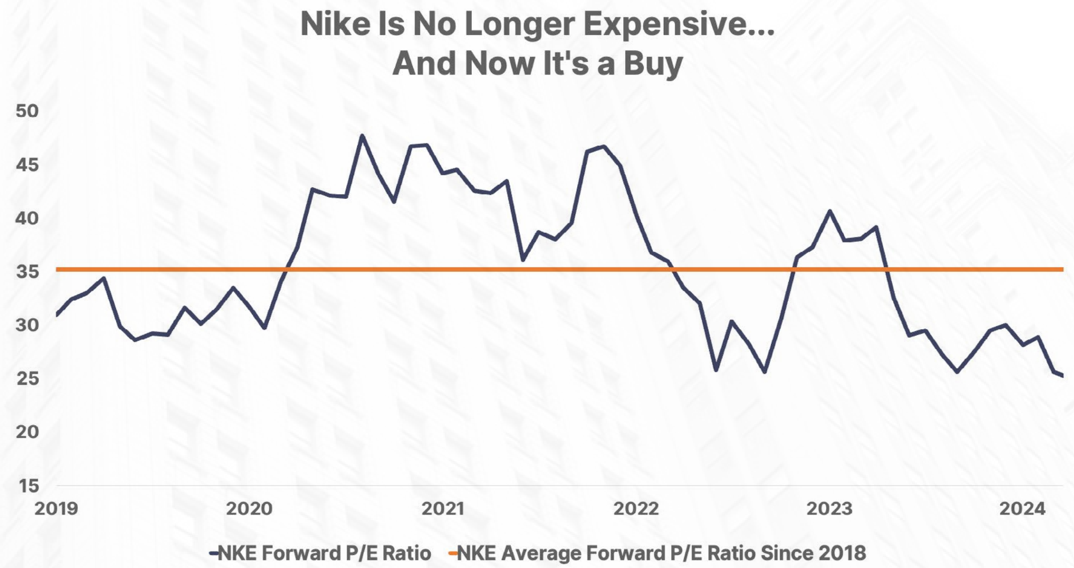
Buy Alert: Two Forever Stocks Enter The Big Secret Portfolio

Nike (NYSE: NKE) shares are down 4.3% from over $100 since we added the stock to the watchlist on October 27, 2023. Since Nike's peak of around $180 in late 2021, the share price has fallen nearly 50% as the company, along with many consumer-goods businesses, has experienced a slowdown. Luxury athletic-apparel maker Lululemon and cosmetics and fragrance giant **Ulta Beauty (Nasdaq: ULTA)** both issued underwhelming revenue and earnings projections for 2024. Other consumer brands have also issued downgrades. McDonald's management noted that it faces a "challenging consumer environment," recording its first revenue miss in four years.

Nonetheless, Nike has a world-class business model that sports 10% net income margins, 12% free cash flow ("FCF") margins, and a 10-year average return on equity ("ROE") of 34%.

In the last 23 years, Nike's revenue has grown consistently, and reached $51 billion in 2023. Nike generates more revenue than its five closest competitors *combined*, which gives it the scale and resources to produce the most innovative products, to market its shoes and apparel around the globe, and to pay top athletes to become brand ambassadors.

At around $95 per share, Nike shares currently trade at 25.8x forward 12-month earnings, which is around a 26% discount to its five-year average forward multiple of 35x earnings – and its lowest current valuation in more than five years.



Source: Bloomberg

We don't want to miss out on the opportunity to buy a fantastic business at an attractive discount. We are adding Nike to the "Forever Stocks" section of The Big Secret portfolio.

Action to Take: Buy **Nike (NYSE: NKE)** up to $100 per share

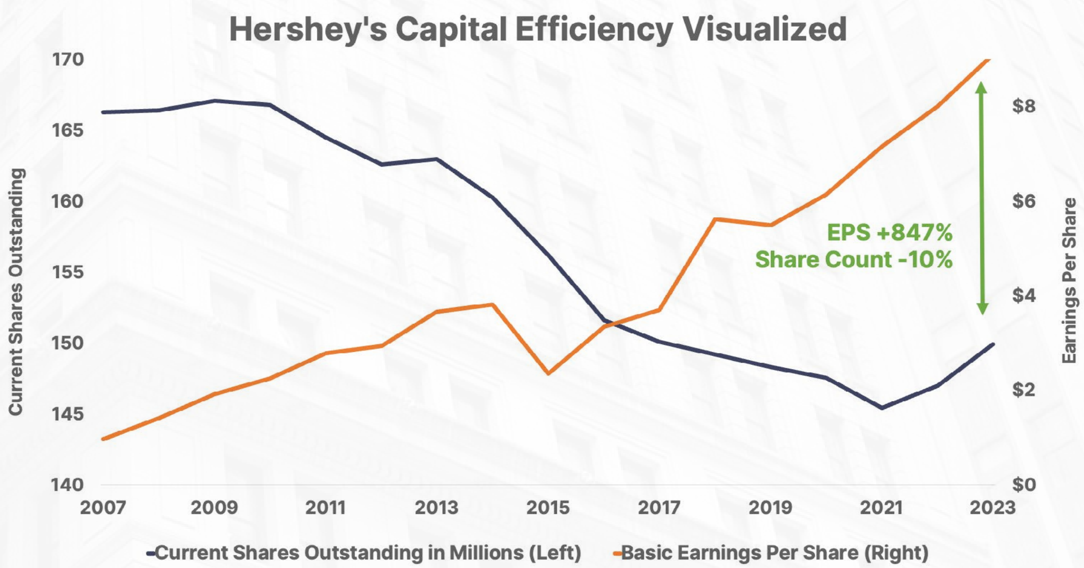
Note: Based on our risk rating scale of 1 (least risky) to 5 (most risky), we are assigning Nike a level 2 risk.

The Hershey Company (NYSE: HSY) has been around since 1894. The company owns a portfolio of some of the most iconic candy brands of all time, including Hershey's Bars, Hershey's Kisses, Reese's Peanut Butter Cups, Kit Kat, Twizzlers, and Almond Joy. The enduring value of these and other brands allows it to sell more candy every year – at ever-increasing prices.

As a result, Hershey has consistently grown revenue, earned hefty profit margins, and returned a steady (and growing) share of profits to shareholders through dividends and share buybacks. As Porter first explained in his original Hershey recommendation in 2007:

"First, this is a slow-growth business. Sales have only increased 24% over seven years. That, surely, will turn off most investors. Most people simply don't understand the impact of even slow growth over time in businesses that are extremely capital efficient."

Since that original recommendation, the company has grown revenue 126% or 5.2% annually. However, what is more impressive is that during this period, Hershey's earnings per share increased a phenomenal 847%, or 15.1% annually.



Source: Bloomberg

Hershey doesn't need to spend a lot of money each year buying chocolate-making equipment. It also doesn't need to reinvent the wheel – a Hershey's Bar or Reese's Peanut Butter Cup hasn't changed much over the past 20 years.

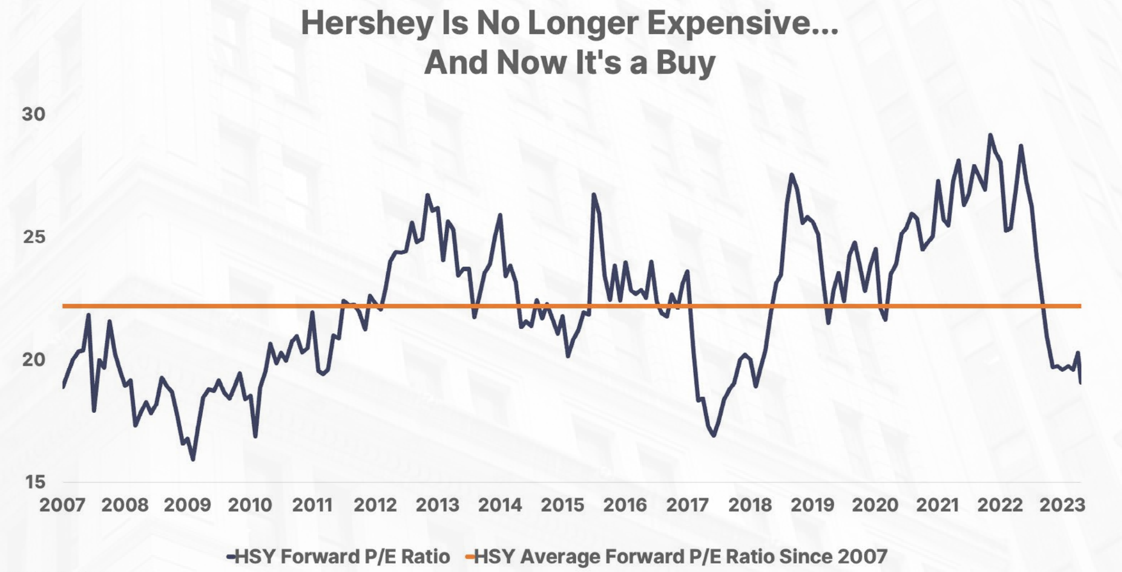
Hershey's capital efficient, cash-light business model enabled the company to return $2.40 to investors through dividends and share repurchases for every dollar invested into capital expenditures since 2007.

Hershey shares are down 4.6% from its price of $193 since we added it to the watchlist on February 23. It now trades at its lowest valuation since early 2019.

Skyrocketing cocoa prices contributed to Hershey's share price decline as the cost of this key ingredient soared above $10,000 per metric ton – up more than 300% in the last year. The rise in price is due to poor crop conditions in West Africa, the region that produces roughly 70% of the world's cocoa beans. Higher cocoa prices eat away at company profit margins, causing some investors to sell off shares, reducing the price of the stock.

But since Hershey hedges its commodities exposure, it's protected from a rise in cocoa prices for the next 12 to 18 months. Hershey also has access to South American cocoa sources that haven't been affected by poor crop conditions. Next year, as hedges roll off, Hershey will likely experience an increase in costs and have to take a hit on profits, but we don't expect cocoa prices to remain at today's record levels for long.

Hershey is trading at 19.2x earnings – a 14% discount to its average forward earnings multiple since 2007.



Source: Bloomberg

Given the recent drop in the price of Hershey shares, we are moving Hershey off the watchlist and into the Forever Stock section of The Big Secret portfolio.

Action to Take: Buy **The Hershey Company (NYSE: HSY)** up to $200 per share

Note: Based on our risk rating scale of 1 (least risky) to 5 (most risky), we are assigning Hershey a level 2 risk.

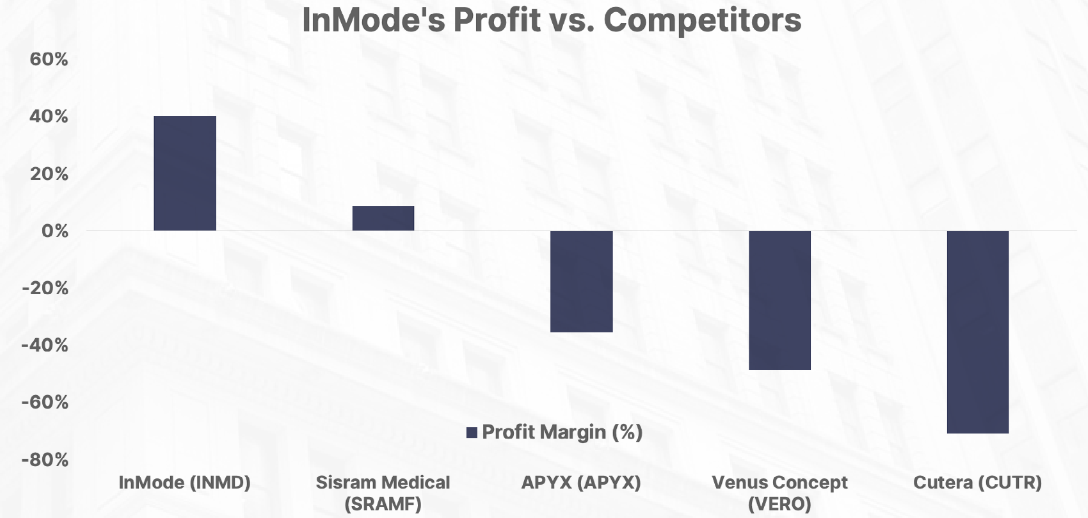
InMode's Share Price Decline Leads to Buying Opportunity

Shares of aesthetic device maker InMode (Nasdaq: INMD) sold off more than 10% on April 9 when the company downgraded its 2024 revenue guidance. InMode announced that it expected its top line to come in at a range of $485 million to $495 million, down from the previous estimate of $495 million to $505 million, meaning it expects to notch its first year of revenue decline since it went public in 2019.

Management cited higher interest rates and a reduced demand for cosmetic surgery in general for the slowing outlook.

It's not alone in feeling sluggish demand. InMode's peers Venus Concept (VERO) and Cutera (CUTR) both had revenue decline more than 15% in 2023. In a sign of strength, InMode's full year 2023 revenue increased 8%. InMode's results only began to slow in Q4 2023 when revenue declined 5% from the prior year. Management views the overall industry slowdown as an opportunity to gain market share.

Recall from our **initial recommendation**, InMode is the largest player in the cosmetic-surgery market and it is also the most profitable by a wide margin.



Source: Bloomberg

InMode's position as the market leader gives the company greater flexibility to increase its marketing spend and continue to invest in R&D while the competition suffers and has to pull back on spending.

As InMode CEO, Moshe Mizrahy, explained recently:

> *"We believe that when the market is slowing down or if there is some crisis in the market, the opportunity for a company like us is to continue spending R&D, marketing, of course not G&A. You noticed that and [we] captured market share."*

Living up to his words, InMode is investing in its suite of products and beginning to gain market share while the overall industry contracts.

Because investors are selling shares due to lower revenue driven primarily by external factors, we see a tremendous buying opportunity in INMD shares.

Here's why: At its current price of $17 per share, InMode currently trades at a market capitalization of $1.47 billion. The company has $742 million in cash and just $9 million in debt. That translates into nearly $9 per share in net cash on the balance sheet.

With a cash position of 50% of its market cap, the company could use cash to buy back shares, thereby reducing the total number outstanding, effectively raising earnings per share. Up to this point, InMode's chair and CEO, Moshe Mizrahy, has refused to pay a dividend or initiate a buyback, but that might soon change.

At its 2023 annual meeting, shareholders denied the motion to keep Mizrahy as board chair. With a new chair in place, buybacks could become the big catalyst for shares of INMD.

If InMode were to repurchase $200 million in shares at its current price of $18, it would wipe out 11.1 million shares, increasing earnings from $2.39 per share to $2.75 – a 20% increase from 2023 – since shares outstanding would decrease from 83.9 million to 72.8 million.

Netting out the cash, InMode trades at $9 per share for a business expected to generate $2.49 in earnings next year (or $2.75 with a buyback), or less than 4x next year's earnings. The shares have never traded this cheap in its history.

We view this 10% drop as a short-term phenomenon, and thus an attractive buying position if you don't already own shares, or for those looking to increase their position.

At $17, shares of InMode are a strong buy, up to $25 per share.

CPNG Shares Rally But Just Became Cheaper

South Korean e-commerce leader **Coupang (NYSE: CPNG)** jumped 11% to $21.25 per share on April 12 as the company announced a price hike for its premium monthly WOW subscription from 4,990 won ($3.6) to 7,890 ($5.71). WOW is similar to Amazon Prime, which offers a range of benefits like unlimited next-day deliveries.

Despite the rally, we suggest buying on this news, as the shares have just become substantially cheaper. Here's the math…

CPNG generated roughly $1 billion in EBITDA last year. Before this news and subsequent rally, it traded with an enterprise value ("EV") of $30 billion, or a 30x multiple of EBITDA.

But pricing power changes everything. The business currently has 14 million WOW subscribers, and this single pricing upgrade will add about $350 million in cash flow overnight (i.e. $2.11 per sub x 12 months per year x 14 million). All else equal, this should boost Coupang's EBITDA to $1.35 billion, meaning it now trades at 22x EBITDA.

One risk to consider is the potential for this price increase to cause existing customers to cancel their memberships, or slow the rate of growth in future WOW sign ups. However, we don't see this as a big risk for two reasons.

First, Coupang has previously raised prices for its WOW subscription without suffering any loss in membership growth. In December 2021, it increased its WOW subscription price by 58% from 2,990 won ($2.2) to 4,990 won ($3.6). Over the next two years, memberships grew from 9 million to 14 million.

Second, Coupang invested heavily in adding new WOW benefits over the last several years, in pursuit of its mission to "create a service so valuable customers can't imagine living without it." This includes developing things like Coupang Play, which is now South Korea's most popular domestic streaming service. It also offers overnight grocery delivery through its Rocket Fresh service, with minimum orders of just 15,000 won – the lowest in South Korea. Last month, it began offering unlimited free delivery for its Coupang Eats restaurant delivery service – something none of its competitors offer. Coupang's dominant distribution network and scale puts it in a position to continue expanding its lead over its rivals in offering unmatched benefits. Given the value it can offer its WOW subscribers, we expect memberships to continue growing.

In fact, WOW subscriber numbers are increasing by about 3 million per year. So applying this price hike to the 17 million WOW subscribers the company will likely have by year-end boosts the EBITDA injection to $560 million, holding all else equal.

But the truth is, we don't expect that all else is equal. Instead, we also expect the rest of Coupang's business should continue generating a growing stream of cash flows and profits this year. Even before this announcement, analysts estimated Coupang would generate $1.3 billion in 2024 EBITDA. We expect those estimates will have to get revised substantially higher in the wake of today's announced price hike on WOW memberships.

The bottom line: we believe $1.5 billion in 2024 EBITDA is a realistic target, with upside from there. If it hits this number, the business now trades at just over 20x EV/EBITDA for 2024. We don't expect the valuation to remain this cheap for long, and we suggest adding to your position on this news.

Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at **mailbag@porterandcompanyresearch.com** to have your questions answered. We'd love to hear from you!

Today's letter is from M.L., who writes:

> *"Dear Porter,*
>
> *The Danaher (DHR) recommendation is very prescient but lacked information regarding the company's shareholder return history.*
>
> *My concern regarding DHR is that all free cash flow goes toward growth and acquisitions and not toward rewarding shareholders.*
>
> *Please address this concern with info regarding the company's shareholder return history."*
>
> ***Porter's comment: Thanks for writing in. It's a good question and it's true that Danaher (NYSE: DHR) doesn't buy back shares and only pays a small dividend of $0.27 per quarter – a paltry 0.46% annualized yield. The reason it does not return more directly to shareholders is that it doesn't need to. Rather than repurchase shares or pay out a lot in dividends, Danaher invests profits to grow future earnings, thereby creating value for shareholders.***
>
> ***This is how the company outperformed Warren Buffett's Berkshire Hathaway by 960% over the past 20 years.***
>
> ***For companies that run out of attractive investment opportunities, returning capital to shareholders is the next best option. With shares trading at a high 31x earnings – a 15% premium to its five-year average of 27x – we'd rather see management pursue growth initiatives that drive higher profits. If Danaher returned capital to shareholders, growth could take a hit and so would its valuation.***
>
> ***With that being said, if shares become widely discounted or management no longer sees opportunities to generate high rates of returns, then we'd be more inclined to see buybacks.***

Porter Stansberry

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**