

OTHER PEOPLE'S MONEY with Danny Devito and Burt Lancaster

An example of a Deep Value Investor and Activist in action

Danny Devito ("Larry the Liquidator") drives up to visit NE Wire and Cable Company—a potential take-over target of his.

START: **Larry the Liquidator:** "Well, let's put it this way:

Back in New York, I got a computer. Her name is Carmen. Every morning, right after I brush my teeth, I punch out: Carmen, computer on the wall, who's the fairest of them all?" Now, most mornings, she spits out, "Garfield, you're the fairest." But three weeks ago, she said: "Garfield, Garfield, scratch your balls.

New England..." Pardon me. "*New England Wire and Cable* is the fairest of them all."

New England Wire and Cable? I said, "**What's it worth?**" So she showed me the numbers. You got equipment here that costs \$120 million. Even at *salvage*, it's worth **\$30 to \$35 million**. - Can I use that blackboard over there?"

- Burt Lancaster as **Jorgy**, President of NE Wire and Cable Company, "Yeah, go ahead."

Thank you.

Come with me. Carmen will educate us. Let's put down **\$30 million**.

- How many acres you got? - A hundred and ten. Carmen and I figure, even as farmland, grazing land.....it's worth **\$10 million**. - Is that fair?

- Yeah.

Let's lay the \$10 under the \$30. That makes **\$40 million**. You bought some other companies, didn't you, Bill? You have a plumbing, an electrical and some kind of adhesive company. Boring, but all making a decent profit. Carmen says they're worth another **\$60 mil**. Let's put the *\$60* under the *\$40*.

And you have working capital of \$25 million, \$10 of it in cash. Let's put down \$25 million, add them up and see what you got. **\$125 million**. The only bad news is.....that this wire and cable division isn't making a profit.....and all the other divisions have to support you. Now, as a stockholder, that doesn't make me very happy.

For example, one division losing \$1 per share, while other divisions are making \$2 per share so the net earnings are \$1. But if losing division is shut down, then \$2 per share in earnings. A huge difference

Are you finished, Mr. Garfield?

No, I'm not, Bill.

Let's say Carmen was suffering from premenstrual syndrome. No offense. A little nuts. Let's say she was too optimistic. Let's knock off \$25 million. Here we go. Let's make it... **\$100 million**. A nice round number. **I like nice round numbers**. Any debt? No. Any lawsuits? Any environmental bullshit? You throwing your garbage in the water? Of course not. Not you. What about pension liabilities? Carmen says you're fully funded. **You people are dreams.**

"I think this meeting is over."

No, no, wait a minute. Here comes the fun part. How many shares outstanding you got?
Four million.

Divide 4 million shares of stock into \$100 million, what do you get?
\$25.00, Twenty-five.

- Good.

That means each share is worth \$25. But that was all foreplay. Let's go for the real thing. The stock was *\$10* when I woke up three weeks ago. **That's a \$10 for a \$25 item**. What a sale! Something worth *\$25* I can buy it for \$10.

The company's not for sale, Mr. Garfield.

I don't want your company, Jorgy. I just want what every other stockholder wants:

- I wanna make money.
- You are making money, Mr. Garfield.

You bought the stock at \$10. It's now \$14.

The stock is *\$14* because I'm buying it.

I'm doing my part. Now you do yours. **Get rid of this wire and cable division**. It's a financial cancer.

<i>Liquidation Valuation in \$mils.</i>	<i>Low</i>	<i>High Estimate</i>
<i>Equipment at salvage</i>	<i>\$30</i>	<i>\$35</i>
<i>Land as grazing land lowest use value</i>	<i><u>\$10</u></i>	<i><u>\$20</u></i>
<i>Sub-total</i>	<i>\$40</i>	<i>\$55</i>
<i>Other Profitable Businesses</i>	<i><u>\$60</u></i>	<i><u>\$60</u></i>
<i>Sub-total</i>	<i>\$100</i>	<i>\$115</i>
<i>Working Capital</i>	<i><u>\$25</u></i>	<i><u>\$25</u></i>
<i>Sub-total</i>	<i>\$125</i>	<i>\$140</i>
<i>Round Down conservatively</i>	<i>\$100</i>	<i>\$140</i>
<i>Number of Shares</i>	<i>4 mil.</i>	<i>4 mil.</i>

<i>Price per share</i>	<i>\$25</i>	<i>\$35</i>
<i>Purchase Price</i>	<i>\$10</i>	<i>\$10</i>
<i>Discount from Intrinsic/liquidating Value</i>	<i>60%</i>	<i>71%</i>