



Presented To
The Ivey Business School
Ben Graham Centre for Value Investing

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Agenda

- Psychology of the market
- Inflation, interest rates, and their importance on multiples
- Company fundamentals
 - Examples:
 - Schlumberger
 - Westrock vs International Paper
- Being mentally prepared
- Q/A



Psychology of The Market



“You either learn through wisdom and knowledge or suffering and woe, and you continue to suffer until you learn.”

~James Allen



Continuity of Thought

“These crowd madneses (1929) recur so frequently in human history that they must reflect some deeply rooted trait of human nature. Perhaps it is the same kind of force that motivates the migrations of birds...

There seems to be a cyclical rhythm in these movements. A bull market, for example will be sweeping along then something will happen — trivial or important — and first one man will sell and then others will sell and the continuity of thought toward higher prices is broken.”

~Bernard Baruch, *My Own Story*, 1957

Not a Bear Among Them

Our Panel Is Bullish on Wall Street, Business, the Market

ALTHOUGH the stock market is now at an all-time high, the price of a seat on the New York Stock Exchange has undergone a drastic markdown, and shares of the publicly-owned brokerage houses are not exactly setting the world on fire. Are these merely statistical quirks, or are they indications that people have doubts about the long-term viability of the business?

Chase: We're not members of the Exchange, so I can't give you an insider's view on the subject, but I'd suspect that the seat price situation ties into the question of public psychology. And I see it as something of a hopeful sign — a sign that investor psychology is at a pretty low ebb. If we view this as an odd-lot indicator, it suggests that the market has a long way to go before it runs into serious danger of topping out. As for the question of the publicly-owned brokerage houses, the industry seems to be in much stronger financial condition today than it was a year or so ago when these shares probably should have been under pressure. I'd suspect the market is currently over-discounting the hazards and cyclical nature of the business.

Barron's: But why should a seat that once went for more than \$300,000 now be selling at less than \$200,000?

Schloss: We own nine seats. They're not being sold with adequate coverage



On December 11, the editors of Barron's and 10 experts from the world of finance gathered around a conference table and peered into the future. For three hours, they conducted a free-wheeling discussion which ranged from the changing face of Wall Street and developments on the international scene to the '73 outlook for inflation, business, corporate profits and a variety of individual securities. All agreed that the stock market seemed likely to work its way higher during the year. After that, however, everyone had different views on the best way to translate the anticipated move into profits.

The round-table participants, all of whom were interviewed individually during 1972 in Barron's Talking Money series, included the following:

- William W. Baker, partner and director of research at McDonald & Co., a Cleveland-based NYSE member firm.
- Robert G. Bennett, president of Petroleum Corp. of America, an \$80-million closed-end investment fund.
- Derwood S. Chase, Jr., president of Chase Investment Counsel Corp., a Charlottesville (Va.) firm which manages over \$50 million of investment funds.
- Edward (Ned) B. Goodnow, managing partner of Goodnow, Gray & Co., a \$20-million private investment partnership.
- Donald F. Kohler, senior investment officer of First National Bank Trustees, a Louisville (Ky.) bank holding company which manages over \$1 billion of securities.
- Archie F. MacAllaster, portfolio manager of the \$19-million Pilgrim Fund and president of Pitfield, MacKay & Co., the U.S. arm of a Canadian brokerage firm.
- Harris J. Nelson, dean of Wall Street columnists and author of the weekly Trader column for Barron's.
- Irwin Schloss, president of Marcus Schloss & Co., a NYSE specialist firm which makes markets in Natomas, Burroughs, Texas Instruments and a dozen or so other Big Board issues.
- Robert L. Schwartz, executive vice president and director of research at Riter, Pyne, Kendall & Hollister, a NYSE

some of the other fellows, and we're not in a position to do the dictating I'm told other people do, but our commissions on larger trades are running anywhere from 50% of the rate paid on the first \$300,000 down to as little as 15% or 20%. I don't get into the actual mechanics of how these things are done, but my people tell me it's working. We have a very friendly, likeable trader, so that might have something to do with it. But in any case, about eight or nine months ago, we negotiated a trade on 60,000 shares of Texaco at a commission that worked out to a nickel a share.

Barron's: Bob, have you had a similar experience?

Bennett: No. Just the opposite. We haven't found negotiated commissions to be a great windfall at all. We did a survey on this a few months ago, and, relative to regular commissions, we figured we've saved something between ten and fifteen one-hundredths of 1%. In other words, if we had gotten an eighth better on the price, we would have come out ahead. As for the level of Stock Exchange seat prices, I think it reflects in part some of the subtle changes that have taken place in the business. In the old days, there was a club aspect to membership on the floor. People made a lot of money trading for their





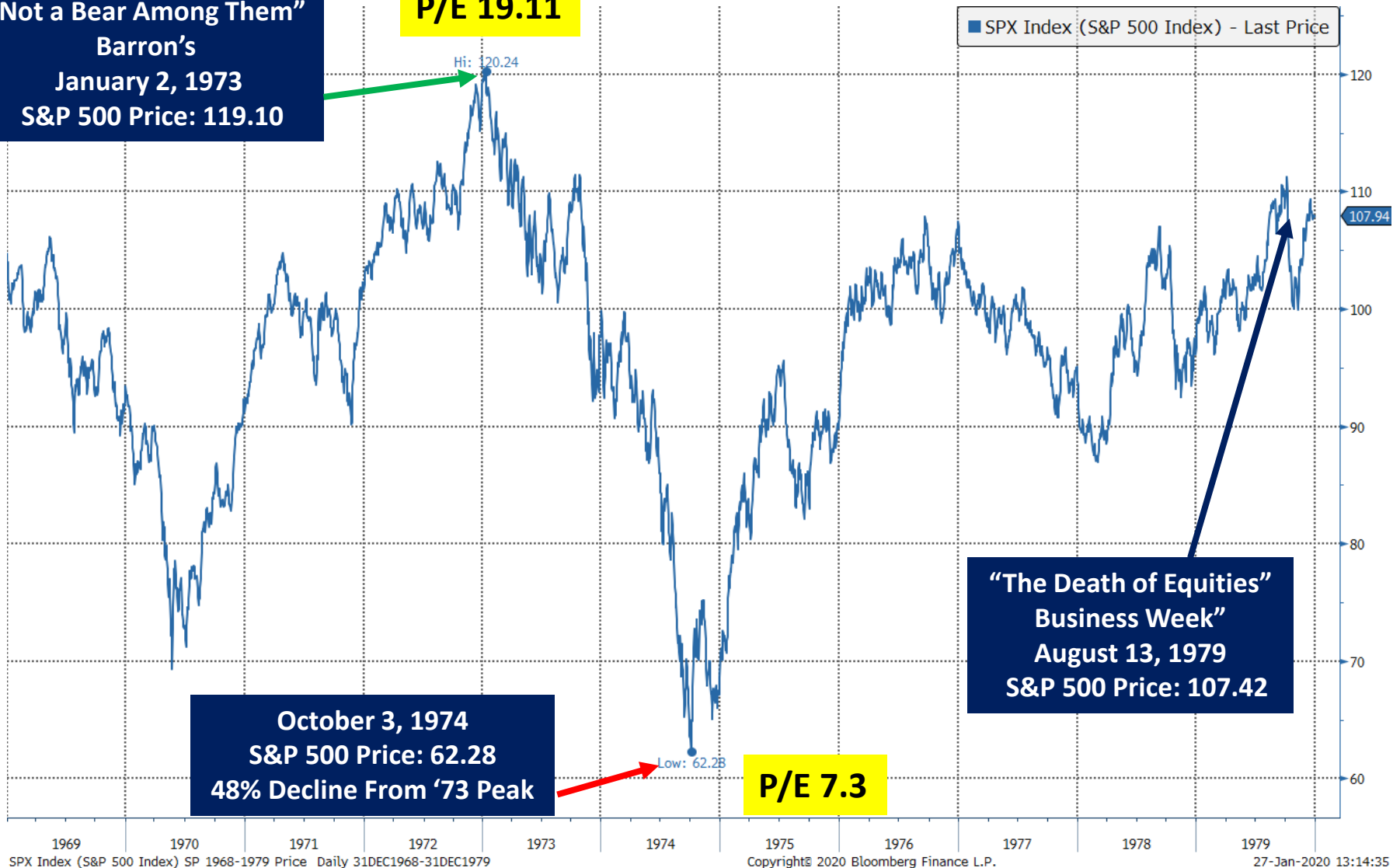
S&P 500 Index Price 1968 - 1979

“Not a Bear Among Them”
Barron's
January 2, 1973
S&P 500 Price: 119.10

P/E 19.11

Hi: 120.24

■ SPX Index (S&P 500 Index) - Last Price



October 3, 1974
S&P 500 Price: 62.28
48% Decline From '73 Peak

Low: 62.28

P/E 7.3

“The Death of Equities”
Business Week
August 13, 1979
S&P 500 Price: 107.42

107.94

SPX Index (S&P 500 Index) SP 1968-1979 Price Daily 31DEC1968-31DEC1979

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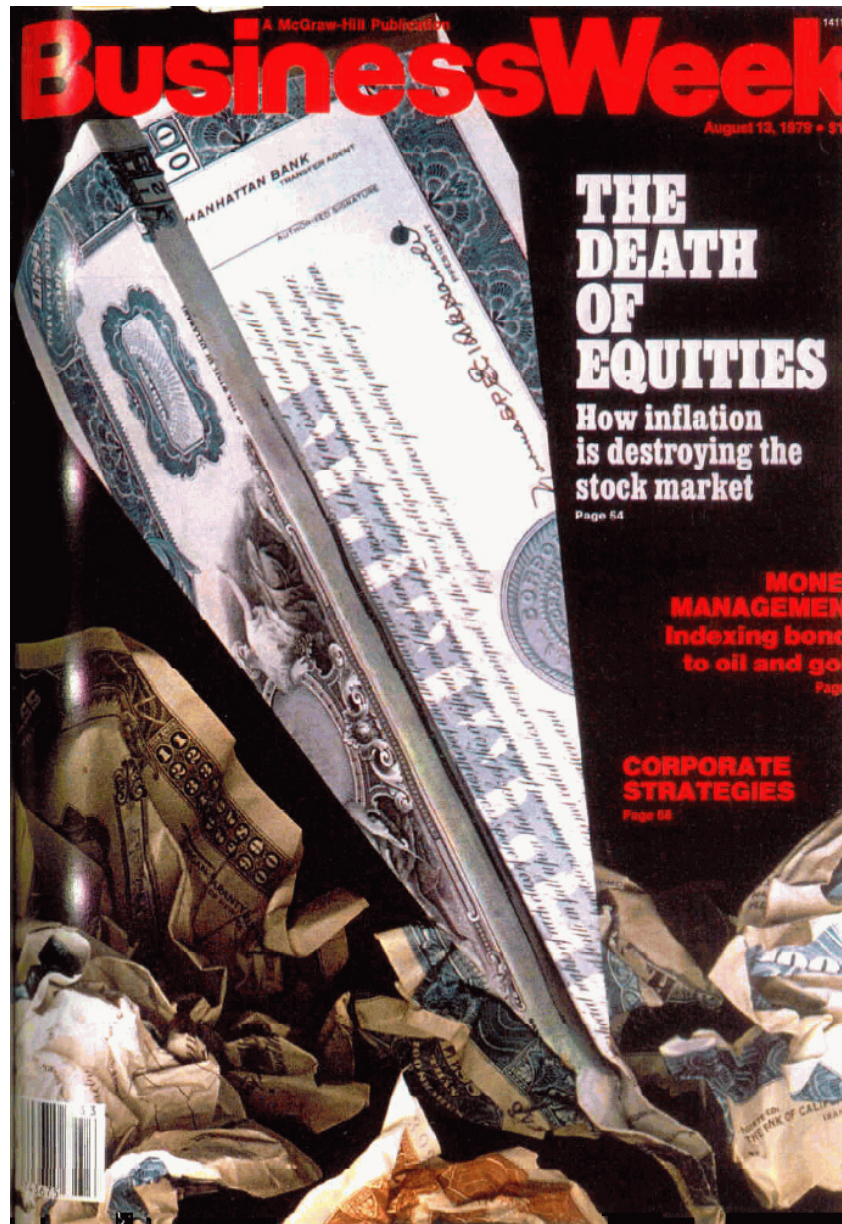
Change in Price Due to Inflation, Multiples, & Earnings

| Date | CPI Inflation | P/E Multiple | S&P 500 Earnings | S&P 500 Price |
|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| January 1973 | 3.2% | 19.1 | \$6.2 | \$120 |
| December 1974 | 11.0% | 7.3 | \$9.2 | \$62 |
| <i>Change</i> | 244% Increase | 61.8% Decrease | 48.4% Increase | 48.3% Decrease |

Source: Century Management, Bloomberg. Numbers have been rounded.



August 12, 1979



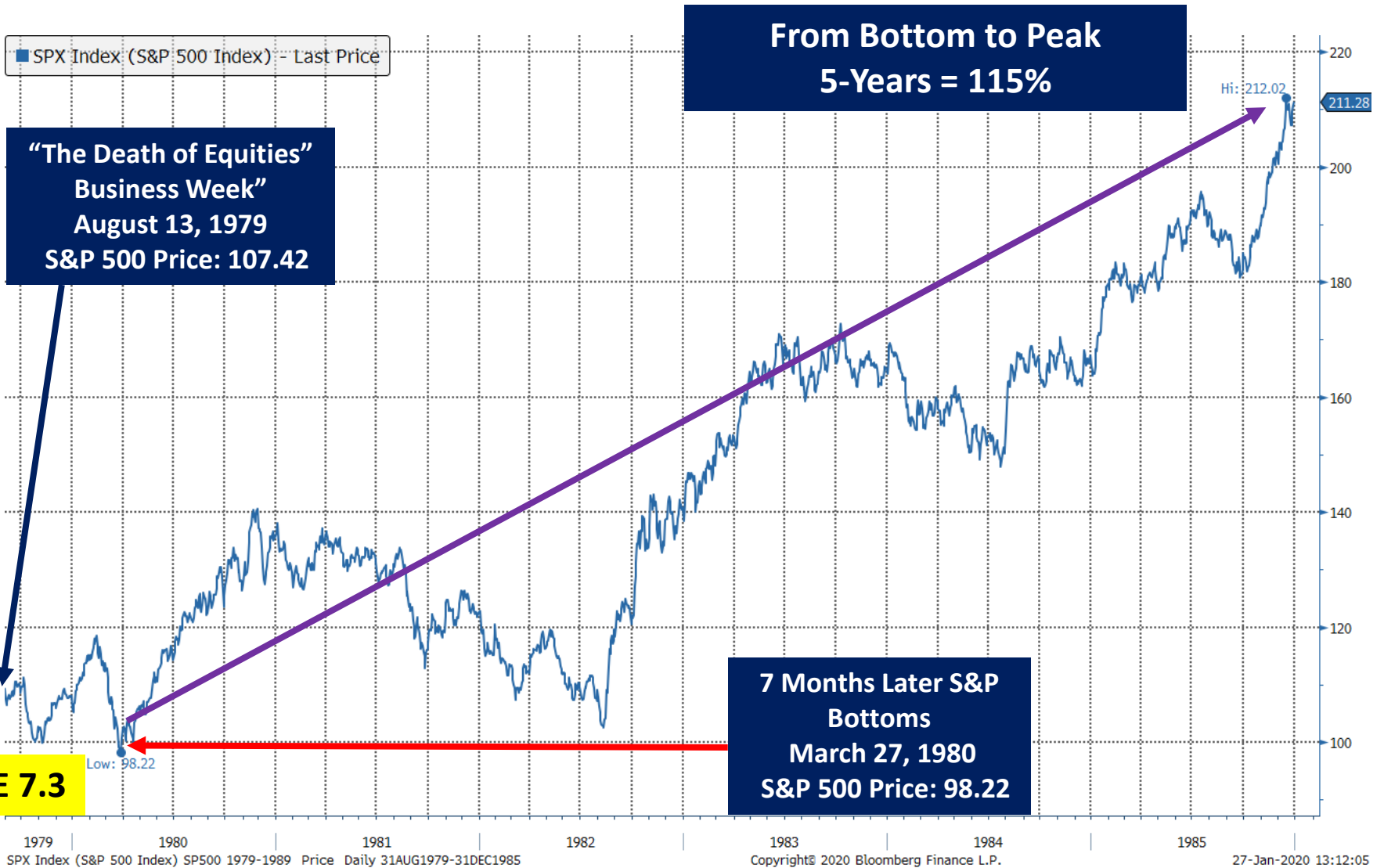


“Invest at the point of maximum pessimism.”

~John Templeton



S&P 500 1979 - 1985





Change in Price Due to Inflation, Multiples, & Earnings

| Date (10-Years) | CPI Inflation | P/E Multiple | S&P 500 Earnings | S&P 500 Price |
|-----------------|---------------------|------------------------|------------------------|------------------------|
| April 1980 | 13.5% | 7.1 | \$15.18 | \$106.3 |
| April 1990 | 5.4% | 14.6 | \$22.60 | \$330.0 |
| Change | 60% Decrease | 105.6% Increase | 48.88% Increase | 210.4% Increase |

Source: Century Management, Bloomberg. Numbers have been rounded.



Inflation, Interest Rates, and Their Importance on Multiples



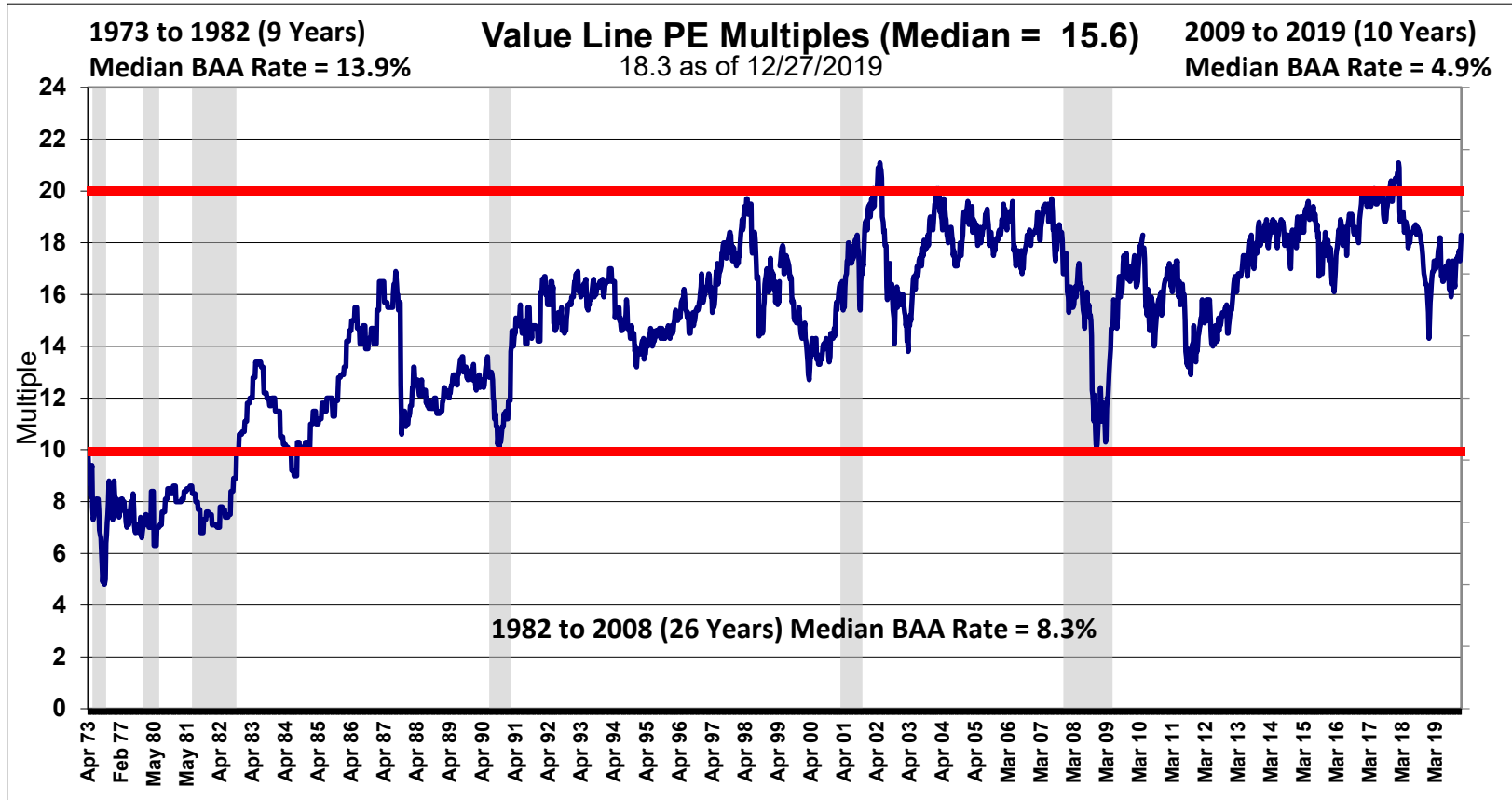
Value Line®



| Value Line[®] | S&P 500 Index[®] |
|--|---|
| <ul style="list-style-type: none">• Median P/E | <ul style="list-style-type: none">• Average P/E |
| <ul style="list-style-type: none">• 2-Qtrs. Forward Earnings• 2-Qtrs. Trailing Earnings | <ul style="list-style-type: none">• 4-Qtrs. of Forward Earnings |
| <ul style="list-style-type: none">• 1,700 Companies | <ul style="list-style-type: none">• 500 Companies |



Entire Period From Low Inflation to High Inflation Inflation Back to Low Inflation



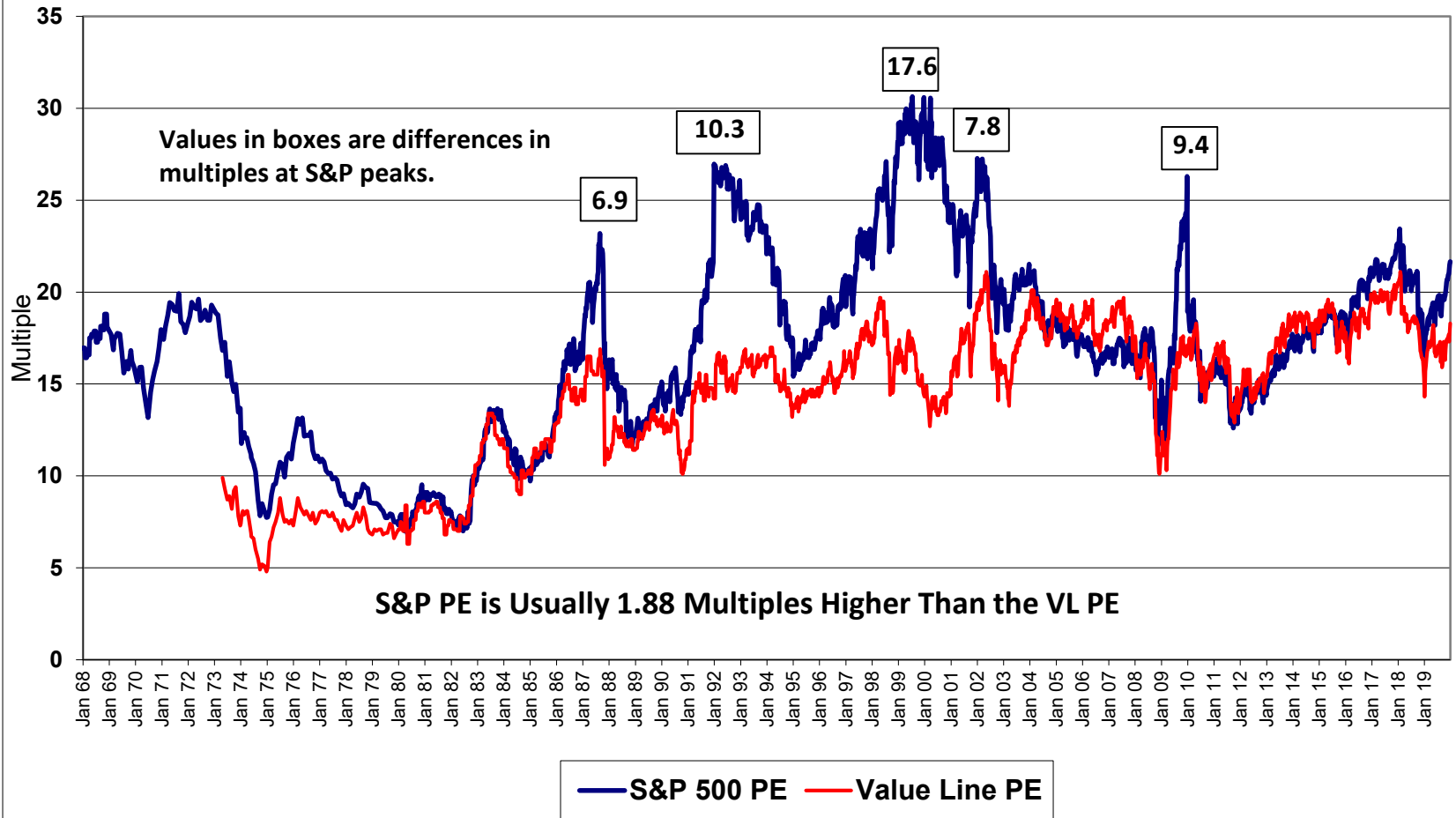
Source: Bloomberg, Value Line®

| | Range | Bottom | Top |
|---------------------------------|-------|--------|------|
| Worst Case (bottom 10%) | | 4.8 | 8.6 |
| Value Zone (10% to 25%) | | 8.6 | 12.8 |
| Expensive Zone (top 80%) | | 18.1 | 21.1 |



S&P 500 PE (17.48) vs Value Line Reg PE (15.60)

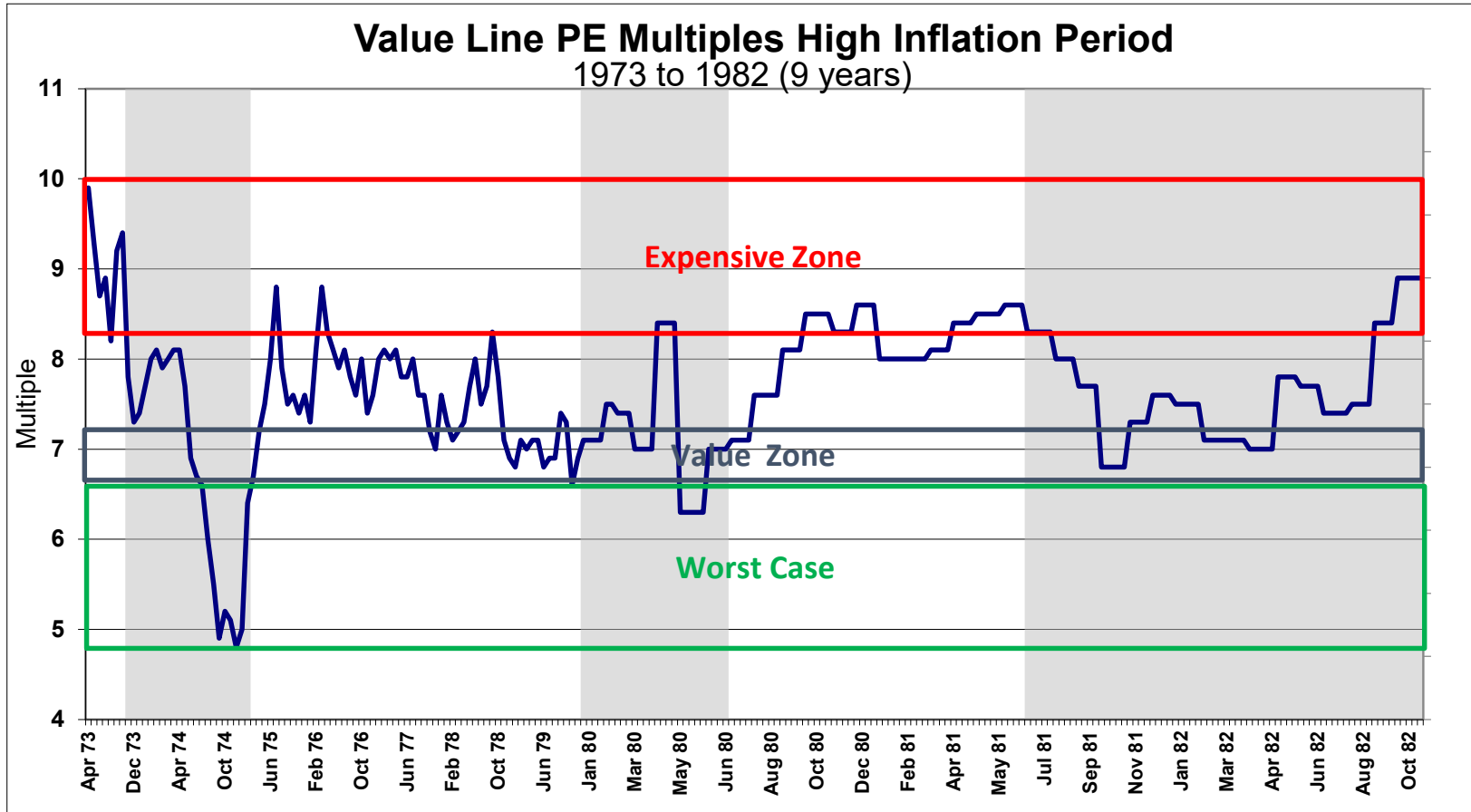
S&P PE = 21.66; VL PE = 18.30 as of 12/27/2019



Source: Bloomberg, Value Line



High Inflation Period



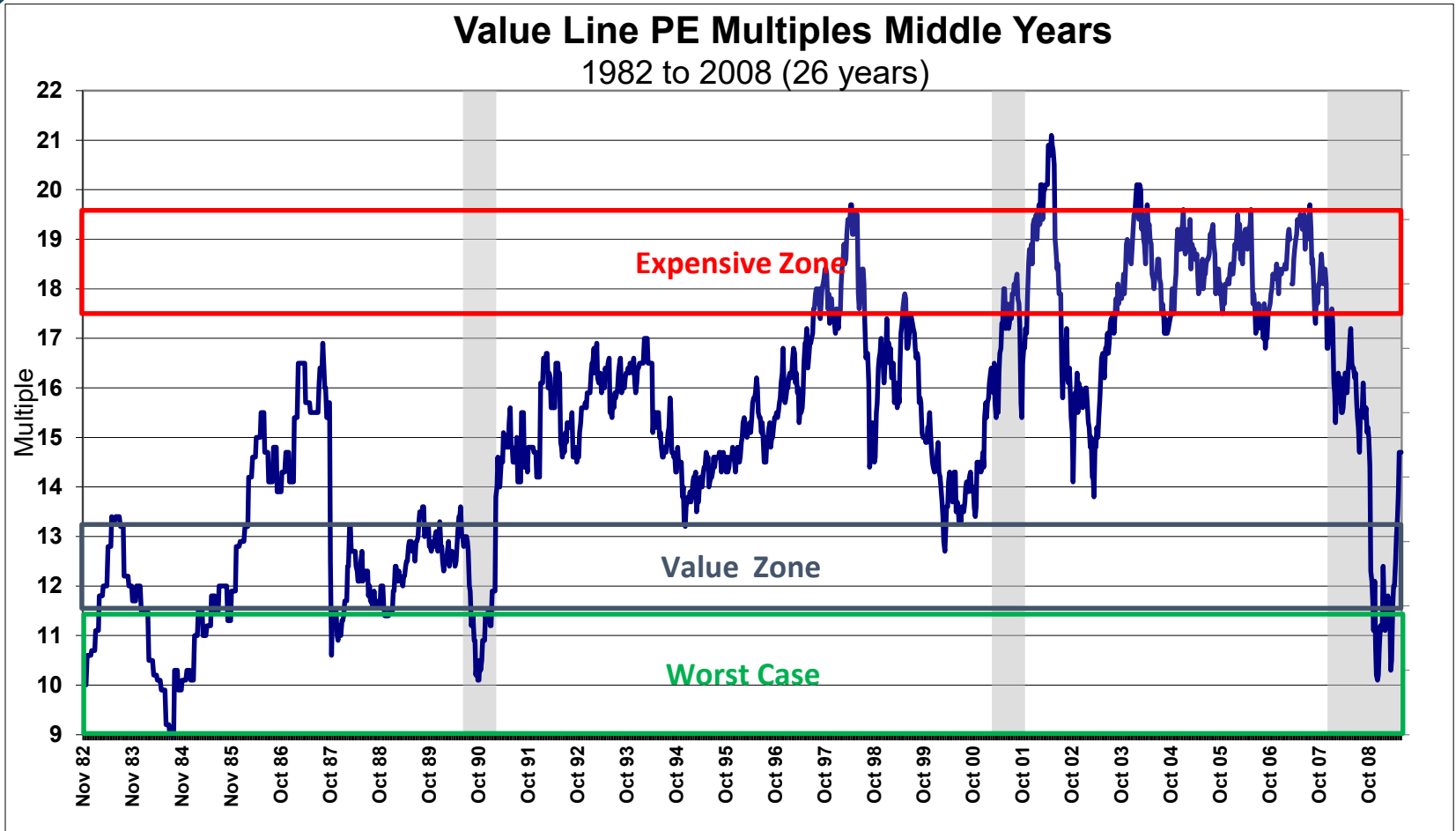
| | Range | Bottom | Top |
|---------------------------------|-------|--------|-----|
| Worst Case (bottom 10%) | | 4.8 | 6.8 |
| Value Zone (10% to 25%) | | 6.8 | 7.1 |
| Expensive Zone (top 80%) | | 8.3 | 9.9 |

| |
|--|
| High Inflation Period: 1973 to 1982 (9 years) |
| Value Line PE Median = 7.6 |
| Median BAA Rate = 13.9% |
| Median Inflation Rate = 9.4% |

Source: Bloomberg, Value Line®



Middle Year's or Average Inflation Period



| Range | Bottom | Top |
|--------------------------|--------|------|
| Worst Case (bottom 10%) | 9.0 | 11.5 |
| Value Zone (10% to 25%) | 11.5 | 13.1 |
| Expensive Zone (top 80%) | 17.7 | 19.5 |

| |
|--|
| Middle Years: 1982 to 2008 (26 years) |
| Value Line PE Median = 15.4 |
| Median BAA Rate = 8.3% |
| Median Inflation Rate = 2.8% |

Source: Bloomberg, Value Line



Low Inflation Period

Value Line PE Multiples Low Inflation Period
2009 to 2019 (10 Years)



| Range | Bottom | Top |
|---------------------------------|--------|------|
| Worst Case (bottom 10%) | 12.9 | 15.0 |
| Value Zone (10% to 25%) | 15.0 | 16.2 |
| Expensive Zone (top 80%) | 18.8 | 21.1 |

| |
|--|
| Low Inflation Period: 2009 to 2019 (10 years) |
| Value Line PE Median = 17.5 |
| Median BAA Rate = 4.9% |
| Median Inflation Rate = 1.9% |

Source: Bloomberg, Value Line®

Premium to Inflation For Various Bond Rates From 1973 to 2019

| Period | BAA Rate Median | AAA Rate Median | 30 Year Treasury Median | 10 Year Treasury Median |
|---|--------------------|--------------------|----------------------------|----------------------------|
| Entire Period 1973 to 2019 | 5.4% | 4.5% | 3.2% | 3.1% |
| High Inflation 1973 to 1982 | 4.4% | 2.6% | 1.9% | 2.0% |
| Middle Years 1982 to 2008 | 5.5% | 4.7% | 3.8% | 3.5% |
| Low Inflation 2008 to 2019 | 3.0% | 2.1% | 1.2% | 0.5% |
| Average Premium to Inflation of Three Periods | 4.3% | 3.1% | 2.3% | 2.0% |
| + Current Inflation | 1.8% | 1.8% | 1.8% | 1.8% |
| = <i>What Interest Rates Would Be If They Were <u>Normalized</u></i> | 6.1% | 4.9% | 4.1% | 3.8% |
| <i>Interest Rates <u>Today</u> (January 27, 2020)</i> | 3.68% | 2.82% | 2.05% | 1.60% |

Source: Bloomberg, Century Management. To arrive at 12/31/19 inflation, we averaged CPI at 2.3%, PCE at 1.6%, and the TIPS implied inflation at 1.6% = 1.83%.



S&P 500 and Value Line® P/E

| Inflation | | | <u>Average</u> S&P 500 P/E | Value Line <u>Median</u> P/E |
|-----------|----|-------|----------------------------|------------------------------|
| 0% | to | 1.0% | 15.59 | 15.80 |
| 1.0% | to | 1.5% | 20.39 | 17.45 |
| 1.5% | to | 2.0% | 18.13 | 17.50 |
| 2.0% | to | 2.5% | 19.48 | 17.50 |
| 2.5% | to | 3.0% | 19.19 | 15.60 |
| 3.0% | to | 3.5% | 23.05 | 15.55 |
| 3.5% | to | 4.0% | 20.43 | 15.00 |
| 4.0% | to | 4.5% | 14.91 | 12.80 |
| 4.5% | to | 5.0% | 12.77 | 11.50 |
| 5.0% | to | 6.0% | 14.42 | 10.30 |
| 6.0% | to | 8.0% | 10.96 | 7.60 |
| 8.0% | to | 10.0% | 8.09 | 7.60 |
| 10.0% | to | 12.0% | 8.27 | 7.60 |
| 12.0% | to | 14.0% | 7.74 | 7.40 |

Source: Bloomberg, Value Line®





Company Fundamentals:

Schlumberger (SLB)



Some of the Valuation Metrics We Consider

Enterprise Value Compared to:

- Sales
- EBITDA
- EBIT

Price Compared to:

- Book Value
- Tangible Book Value
- Sales
- Net Current Assets
- Operating Earnings
- Cash Flow
- Free Cash Flow

We average the 3 lowest years of applicable multiples.



S&P 500 Oil & Gas Equipment & Services Sub Industry

Price to Book

| Low | | High | Days | | | % of Time Likely To Go Higher |
|---------------|---|------|--------------------------------------|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 7.10 | - | 7.70 | 7 | 0.1% | 100.0% | 0.0% |
| 6.50 | - | 7.10 | 5 | 0.1% | 99.9% | 0.1% |
| 5.90 | - | 6.50 | 62 | 0.8% | 99.8% | 0.2% |
| 5.30 | - | 5.90 | 422 | 5.6% | 99.0% | 1.0% |
| 4.70 | - | 5.30 | 766 | 10.1% | 93.4% | 6.6% |
| 4.10 | - | 4.70 | 613 | 8.1% | 83.3% | 16.7% |
| 3.50 | - | 4.10 | 578 | 7.6% | 75.2% | 24.8% |
| 2.90 | - | 3.50 | 1094 | 14.5% | 67.5% | 32.5% |
| 2.30 | - | 2.90 | 2318 | 30.7% | 53.1% | 46.9% |
| 1.70 | - | 2.30 | 1344 | 17.8% | 22.4% | 77.6% |
| 1.10 | - | 1.70 | 348 | 4.6% | 4.6% | 95.4% |
| 0.50 | - | 1.10 | 0 | 0.0% | 0.0% | 100.0% |
| | | | 7557 | | | |
| Current | | 1.36 | 01/28/2020 | | 0.8% | 99.2% |
| | | 1.25 | Standard Deviations below the median | | | |
| High | | 7.65 | 07/22/1997 | | | |
| Low | | 1.20 | 08/27/2019 | | | |
| Average | | 3.21 | | | | |
| Median | | 2.82 | | | | |
| Std Deviation | | 1.17 | | | | |

Data from Bloomberg: 01/31/1990 to 01/28/2020



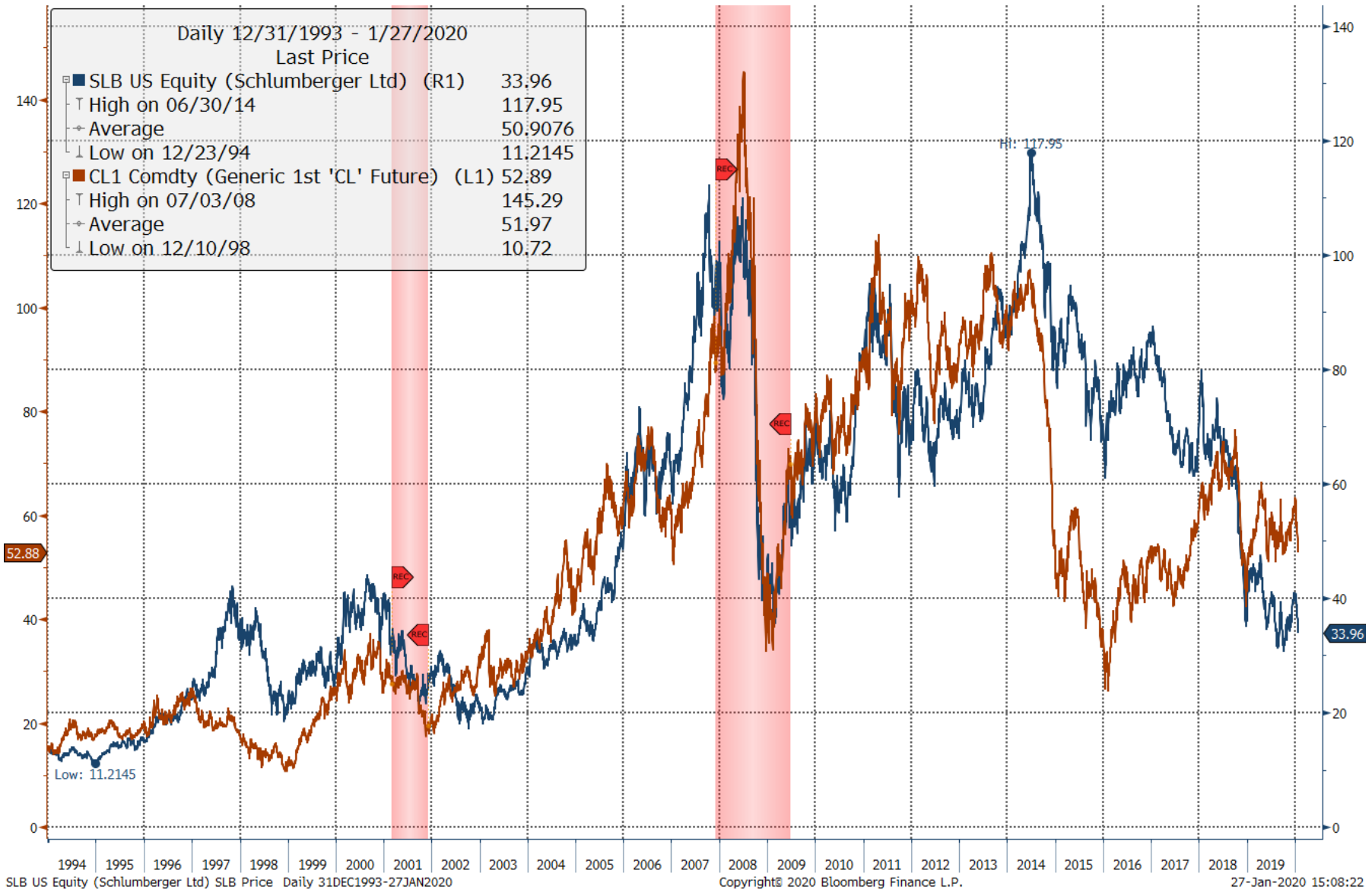
S&P 500 Oil & Gas Equipment & Services Sub Industry EV to Sales

| Low | | High | Days | | | % of Time Likely to Go Higher |
|---------------|---|------|--------------------------------------|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 3.45 | - | 3.70 | 26 | 0.3% | 100.0% | 0.0% |
| 3.20 | - | 3.45 | 195 | 2.5% | 99.7% | 0.3% |
| 2.95 | - | 3.20 | 422 | 5.4% | 97.2% | 2.8% |
| 2.70 | - | 2.95 | 490 | 6.3% | 91.8% | 8.2% |
| 2.45 | - | 2.70 | 481 | 6.1% | 85.5% | 14.5% |
| 2.20 | - | 2.45 | 807 | 10.3% | 79.4% | 20.6% |
| 1.95 | - | 2.20 | 1003 | 12.8% | 69.1% | 30.9% |
| 1.70 | - | 1.95 | 1382 | 17.7% | 56.2% | 43.8% |
| 1.45 | - | 1.70 | 1024 | 13.1% | 38.6% | 61.4% |
| 1.20 | - | 1.45 | 1134 | 14.5% | 25.5% | 74.5% |
| 0.95 | - | 1.20 | 858 | 11.0% | 11.0% | 89.0% |
| 0.70 | - | 0.95 | 2 | 0.0% | 0.0% | 100.0% |
| | | | 7824 | | | |
| Current | | 1.29 | 01/27/2020 | | 18.1% | 81.9% |
| | | 0.96 | Standard Deviations below the median | | | |
| High | | 3.61 | 09/21/2007 | | | |
| Low | | 0.91 | 08/31/1998 | | | |
| Average | | 1.94 | | | | |
| Median | | 1.87 | | | | |
| Std Deviation | | 0.61 | | | | |

Data from Bloomberg: 01/31/1990 to 01/27/2020

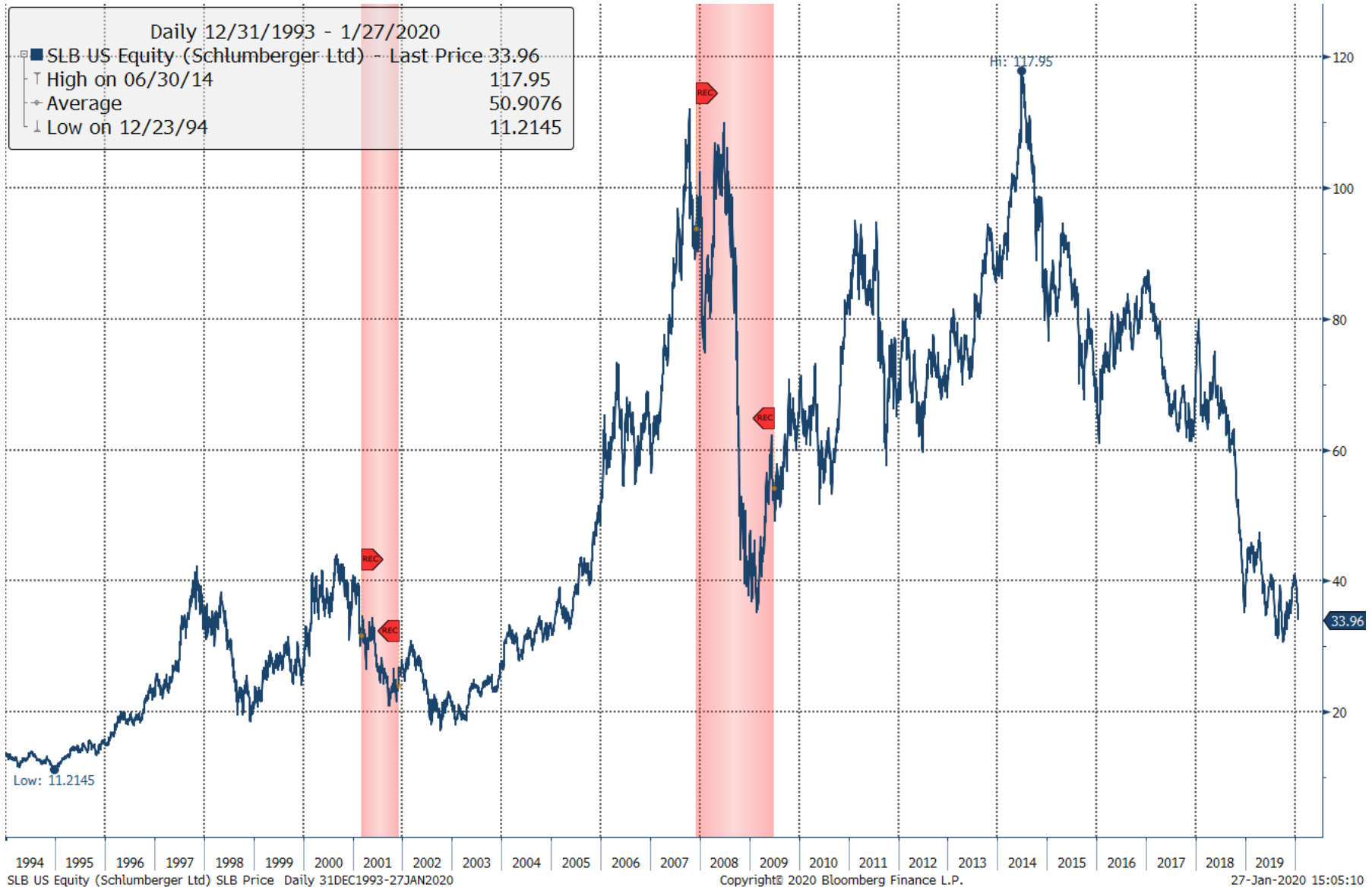


Schlumberger & WTI Oil Price History





Schlumberger Price History





Schlumberger: Identify and Analyze How Company Executes During Economic and Industry Cycles



Source: Bloomberg, Century Management



The Importance of Understanding “Worst Case”



Schlumberger: Analyze How the Company Executes and How it's Valued During Peaks and Troughs

| EV/EBITDA | | |
|------------|-------|------|
| | Low | High |
| 12/31/1994 | 7.86 | 9.8 |
| 12/31/1995 | 7.01 | 9.7 |
| 12/31/1996 | 7.87 | 12.8 |
| 12/31/1997 | 8.81 | 16.8 |
| 12/31/1998 | 8.57 | 17.7 |
| 12/31/1999 | 15.33 | 23.6 |
| 12/31/2000 | 15.50 | 24.9 |
| 12/31/2001 | 9.56 | 16.9 |
| 12/31/2002 | 9.21 | 11.8 |
| 12/31/2003 | 12.41 | 17.8 |
| 12/31/2004 | 11.91 | 15.4 |
| 12/31/2005 | 9.84 | 15.7 |
| 12/31/2006 | 10.45 | 14.6 |
| 12/31/2007 | 8.58 | 16.8 |
| 12/31/2008 | 5.50 | 15.3 |
| 12/31/2009 | 6.72 | 13.3 |
| 12/31/2010 | 9.46 | 15.0 |
| 12/31/2011 | 8.55 | 13.7 |
| 12/31/2012 | 8.03 | 10.5 |
| 12/31/2013 | 7.84 | 10.6 |
| 12/31/2014 | 8.20 | 11.9 |
| 12/31/2015 | 9.63 | 13.2 |
| 12/31/2016 | 14.80 | 20.2 |
| 12/31/2017 | 14.64 | 20.0 |
| 12/31/2018 | 9.35 | 18.6 |
| 12/31/2019 | 8.99 | 12.7 |





Schlumberger: We Then Analyze the Current and our Estimates Future State of the Business

| LOW CYCLE MULTIPLES | | | | | | | |
|---------------------|---------|------|------|---------|--------|---------------------|----------------------|
| | 1994/95 | 1998 | 2002 | 2008/09 | Lowest | Next 3 Lowest Years | Median of 25 YR Lows |
| EV/EBITDA | 7.4 | 8.6 | 9.2 | 6.1 | 6.1 | 8.4 | 9.1 |
| EV/SLS | 1.6 | 1.8 | 1.9 | 1.9 | 1.6 | 1.9 | 2.2 |
| P/FREECASH | 55.6 | 48.8 | 23.5 | 14.7 | 14.7 | 42.6 | 23.9 |
| P/E | 18.6 | 20.4 | 34.6 | 10.5 | 10.5 | 24.5 | 19.5 |
| Div's Yield | 3.2% | 2.0% | 2.2% | 2.4% | 2.03% | 2.4% | 2.0% |

| HIGH CYCLE MULTIPLES | | | | | | | |
|----------------------|---------|-------|---------|------|-------|----------------------|-----------------------|
| | 1997/98 | 2000 | 2006/07 | 2014 | Peak | Next 3 Highest Years | Median of 25 YR Highs |
| EV/EBITDA | 17.3 | 24.9 | 15.7 | 11.9 | 24.9 | 14.9 | 15.2 |
| EV/SLS | 3.9 | 5.4 | 5.5 | 3.3 | 5.5 | 4.9 | 3.8 |
| P/FREECASH | 134.0 | 129.0 | 38.5 | 21.0 | 134.0 | 100.5 | 21.0 |
| P/E | 38.2 | 69.0 | 25.4 | 21.2 | 69.0 | 44.2 | 21.2 |
| Div's Yield | 0.9% | 0.9% | 0.7% | 1.4% | 0.65% | 1.0% | 2.0% |

| EV/EBITDA | |
|-----------|------|
| WC | 7 |
| BUY | 8.40 |
| FV | 11.2 |
| SELL | 14 |

| EV/SLS | |
|--------|------|
| WC | 1.6 |
| BUY | 1.92 |
| FV | 2.46 |
| SELL | 3.00 |

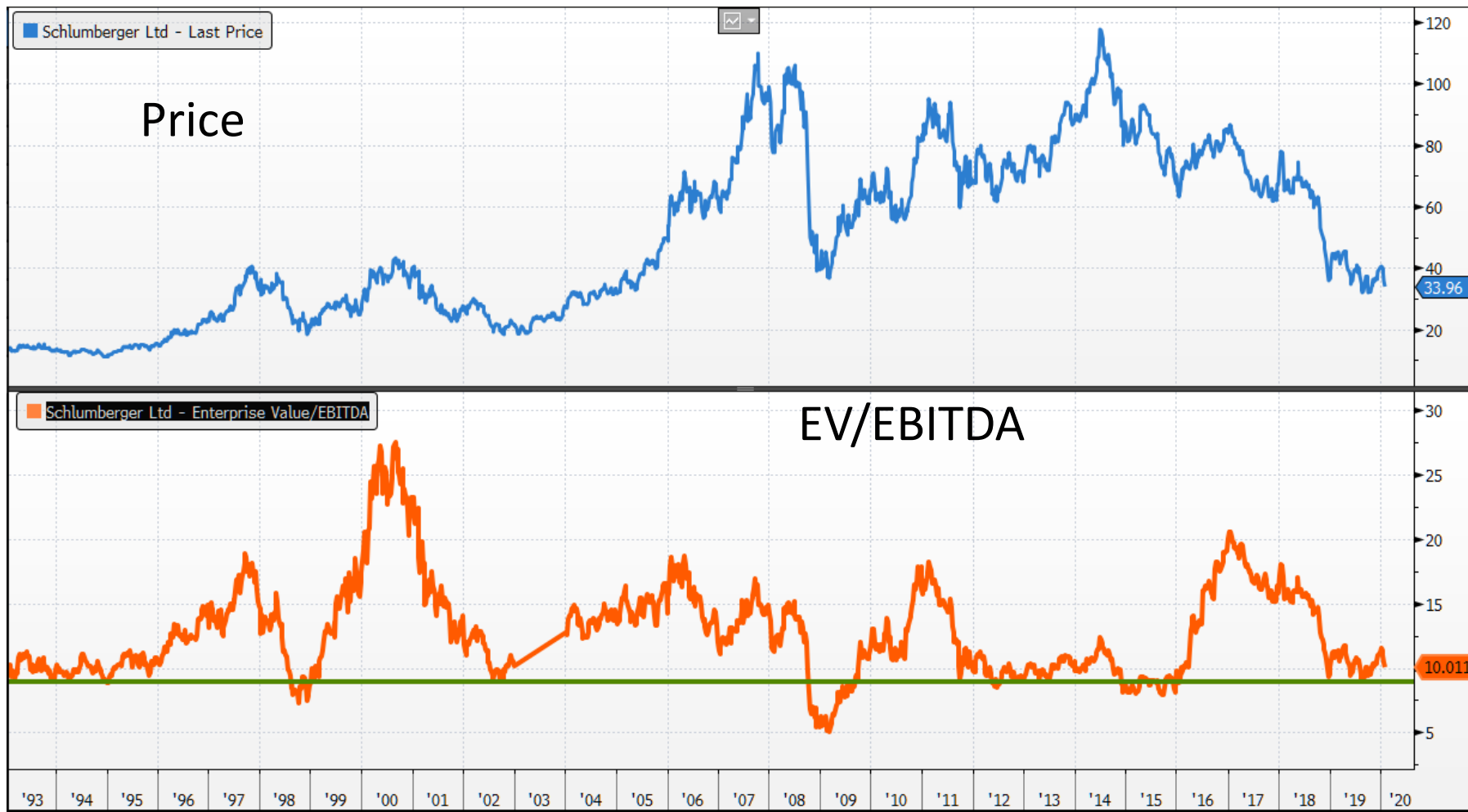
| P/FREE CASH | |
|-------------|-------|
| WC | 12 |
| BUY | 14.40 |
| FV | 19.70 |
| SELL | 25.00 |

| P/E | |
|------|-------|
| WC | 15 |
| BUY | 18.00 |
| FV | 24.00 |
| SELL | 30.00 |

Source: Bloomberg, Century Management

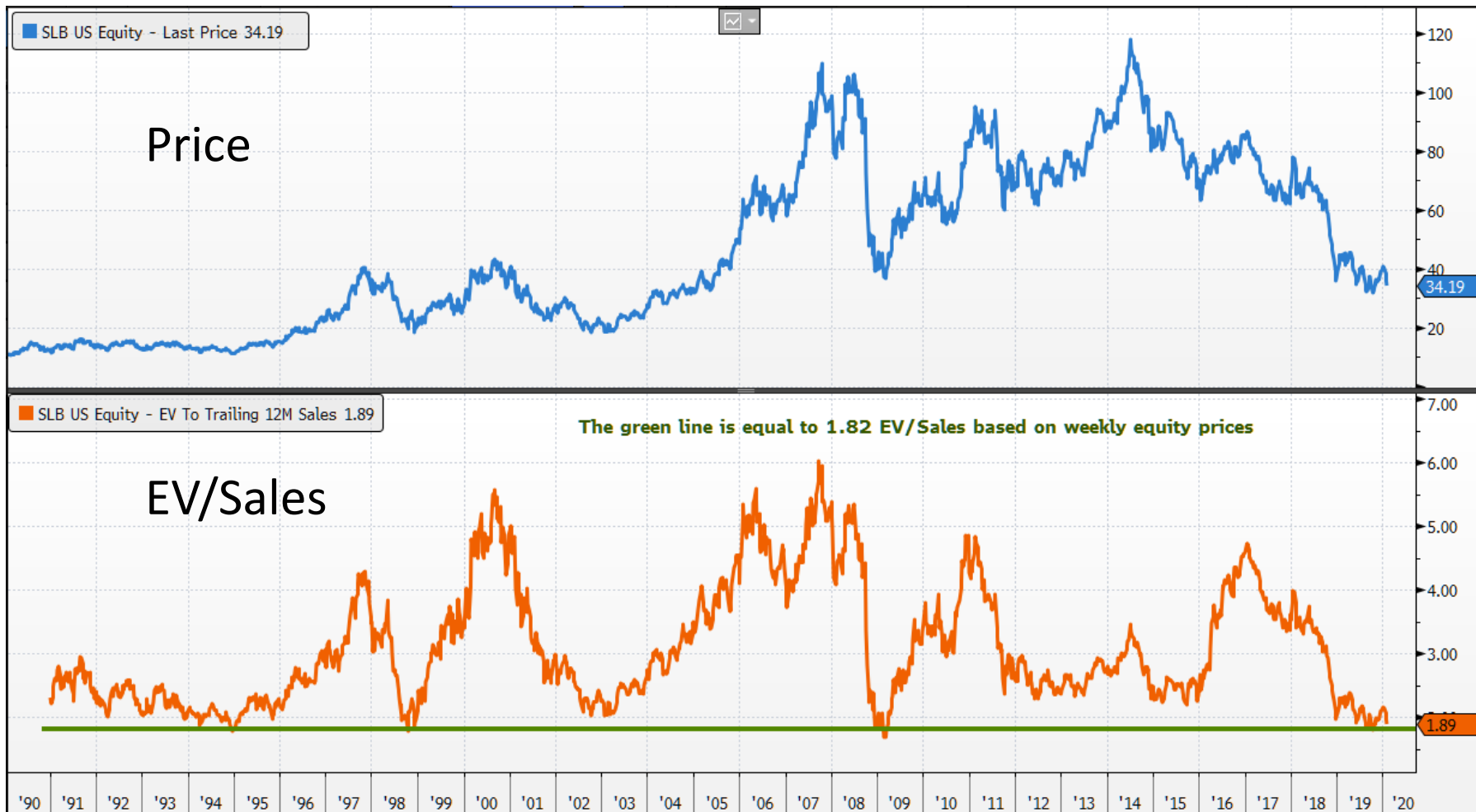


Schlumberger EV/ EBITDA





Schlumberger EV/ SALES





We Analyze the Current State Against our Estimate of the Future State of the Business and Apply Appropriate Multiples to our Forecast of Future Fundamentals

| | |
|-------------------------------|---------|
| Company = Schlumberger | |
| Date | 1/23/20 |
| Price | \$37.22 |
| Mkt Cap (B) | \$51.5 |
| PRICE STRUCTURE | |
| WC | 26 |
| BUY | 32 |
| FV | 43 |
| SELL | 55 |
| 5-Yr Sell | 84 |
| Dividend | \$2.00 |
| Yield | 5.4% |

| EV/EBITDA | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|
| WC | 7 | 23.7 | 25.9 | 29.1 | 32.3 | 35.2 | 38.3 | 41.7 | 45.4 |
| BUY | 8.40 | 30.5 | 33.1 | 36.8 | 40.6 | 43.9 | 47.4 | 51.2 | 55.3 |
| FV | 11.2 | 43.9 | 47.4 | 52.3 | 57.1 | 61.2 | 65.5 | 70.2 | 75.2 |
| SELL | 14 | 57.4 | 61.7 | 67.7 | 73.6 | 78.6 | 83.6 | 89.1 | 95.0 |

| EV/SLS | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|
| WC | 1.65 | 29.2 | 30.4 | 32.3 | 34.6 | 37.4 | 40.6 | 44.0 | 47.8 |
| BUY | 1.98 | 37.1 | 38.5 | 40.6 | 43.3 | 46.6 | 50.1 | 54.0 | 58.2 |
| FV | 2.49 | 49.2 | 51.0 | 53.6 | 56.8 | 60.6 | 64.8 | 69.4 | 74.3 |
| SELL | 3.00 | 61.3 | 63.5 | 66.5 | 70.3 | 74.7 | 79.5 | 84.7 | 90.4 |

| P/FREE CASH | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-------------|-------|------|------|------|------|------|------|------|------|
| WC | 12 | 25.3 | 27.8 | 31.4 | 34.6 | 37.0 | 39.4 | 42.0 | 44.8 |
| BUY | 14.40 | 30.3 | 33.4 | 37.6 | 41.5 | 44.4 | 47.3 | 50.4 | 53.8 |
| FV | 19.70 | 41.5 | 45.7 | 51.5 | 56.8 | 60.7 | 64.7 | 69.0 | 73.6 |
| SELL | 25.00 | 52.7 | 58.0 | 65.3 | 72.0 | 77.1 | 82.1 | 87.6 | 93.4 |

| P/E | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------|-------|------|------|------|------|------|------|-------|-------|
| WC | 15 | 24.4 | 28.1 | 33.2 | 38.0 | 42.0 | 46.0 | 50.2 | 54.8 |
| BUY | 18.00 | 29.3 | 33.7 | 39.8 | 45.6 | 50.4 | 55.1 | 60.3 | 65.8 |
| FV | 24.00 | 39.0 | 44.9 | 53.1 | 60.8 | 67.1 | 73.5 | 80.4 | 87.7 |
| SELL | 30.00 | 48.8 | 56.2 | 66.4 | 76.1 | 83.9 | 91.9 | 100.5 | 109.6 |

| AVERAGE | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------|--|------|------|------|------|------|------|------|------|
| WC | | 25.7 | 28.1 | 31.5 | 34.9 | 37.9 | 41.1 | 44.5 | 48.2 |
| BUY | | 31.8 | 34.7 | 38.7 | 42.8 | 46.3 | 50.0 | 54.0 | 58.3 |
| FV | | 43.4 | 47.2 | 52.6 | 57.9 | 62.4 | 67.1 | 72.2 | 77.7 |
| SELL | | 55.1 | 59.8 | 66.5 | 73.0 | 78.6 | 84.3 | 90.5 | 97.1 |

Source: Century Management, Bloomberg. 5-year sell point based on the 2025 average sell target. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that the markets, sectors, or companies discussed in this presentation were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.



“The function of the margin of safety is, in essence, that of rendering unnecessary an accurate estimate of the future.”

~Ben Graham



“Price determines return.”

~Ben Graham



Schlumberger: Reward-to-Risk to CM Current Sell Target

| | |
|-------------------------------|---------------|
| Company = Schlumberger | |
| CM PRICE STRUCTURE | |
| WC | 26 |
| BUY | 32 |
| FV | 43 |
| SELL | 55 |
| Dividend | \$2.00 |
| Yield | 5.4% |

| Buy Price | Worst Case | % Decline | Current | % Increase | Reward to Risk |
|------------------|-------------------|------------------|----------------|-------------------|-----------------------|
| \$32 | \$26 | -18.8% | \$55 | 71.9% | 4.8-to-1 |
| \$30 | \$26 | -13.3% | \$55 | 83.3% | 6.3-to-1 |
| \$28 | \$26 | -7.1% | \$55 | 96.4% | 13.5-to-1 |

Source: Century Management, Bloomberg. CM current sell point based on the 2020 average sell target. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that the markets, sectors, or companies discussed in this presentation were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.



Schlumberger: Reward-to-Risk to CM 5-Year Sell Target

| Company = Schlumberger | |
|------------------------|--------|
| CM PRICE STRUCTURE | |
| WC | 26 |
| BUY | 32 |
| FV | 43 |
| SELL | 55 |
| 5-Yr Sell | 84 |
| Dividend | \$2.00 |
| Yield | 5.4% |

| Buy Price | Worst Case | % Decline | 5-Yr Sell | % Increase | Reward to Risk |
|-----------|------------|-----------|-----------|------------|----------------|
| \$32 | \$26 | -18.8% | \$84 | 162.5% | 8.7-to-1 |
| \$30 | \$26 | -13.3% | \$84 | 180.0% | 13.5-to-1 |
| \$28 | \$26 | -7.1% | \$84 | 200.0% | 42.0-to-1 |

Source: Century Management, Bloomberg. CM 5-year sell point based on the 2025 average sell target. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that the markets, sectors, or companies discussed in this presentation were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.



Company Fundamentals

Westrock (WRK)

VS

International Paper (IP)



International Paper and WestRock Thesis

- **Thesis:** After years of consolidation, we believe the North American containerboard industry has become extremely rational and disciplined, potentially enhancing long-term shareholder returns for the industry participants.
 - Led by International Paper, the industry has spent the last few decades consolidating and rationalizing the industry.
 - 1995: The top 5 players controlled 43% of the North American market.
 - 2019: The top 5 players control 78% , with the top 2 controlling 54%.
 - Consolidation has resulted in industry-wide capital discipline, improved capacity utilization, higher margins, sustainable free-cash flow through the cycle, higher ROIC, and increased return to shareholders.
 - International Paper (31% market share) and WestRock (23% market share) are the top two producers in the North American containerboard industry.
- **Opportunity:** The U.S. / China trade war resulted in slower world GDP and a near-term build in containerboard inventory. The stock prices of containerboard companies fell, as the market anticipated a potential recession and slower profit growth. We believe that the stock prices of containerboard companies not only discounted a recession, but acted in a highly disciplined manner by reducing production rates and rapidly reducing weeks of inventory towards the lower end of historical levels. With excess industry inventory quickly cleared, we believe the industry is setup for improved profits, while at the same time these stocks have been priced for recession.



International Paper and WestRock Thesis ... Continued

- Our assessment of the industry led us to the industry leaders, International Paper and WestRock.
 - We found both companies to be investment worthy at very good values.
 - However we ultimately preferred WestRock over International paper.
-

- Both companies excel in operational excellence, driving waste and cost out of their operations through their continual improvement programs.
 - Both have been disciplined capital allocators.
 - Both generate substantial sustainable free-cash flow.
 - Both return excess capital to shareholders through share repurchase and dividends.
 - We believe both offer very good total returns through price appreciation and a healthy dividend.
-

- However, when deciding between the two we ultimately chose WestRock.
- While International paper is the containerboard industry leader, they also participate in the free-sheet paper market, which we view less favorably.
- International Paper also has several joint ventures (Russia, China), that add more complexity to their operations and valuation.
- From a valuation standpoint, International paper has always been priced at a slight premium to WestRock. However, we believe as WestRock continues to execute, the valuation gap will likely close, though to be conservative we don't include this in our projections.

WestRock

International Paper

Market Cap: \$10.7 Billion

Market Cap: \$17.5 Billion

Avg. Price on 11/18/19: \$39.90

Closing Price on 11/18/19: \$45.88

4.66% Dividend Yield Based on \$39.90

4.47% Dividend Yield Based on \$45.88

CM Pricing Structure

\$33.0 Estimated Worst Case

\$36.6 Estimated Worst Case

\$41.8 Buy Price

\$44.2 Buy Price

\$51.0 Fair Value Estimate

\$55.8 Fair Value Estimate

\$60.3 Near-Term Sell Target

\$67.4 Near-Term Sell Target

\$90.6 5-Year Sell Target

\$96.7 5-Year Sell Target

Implied Returns

-17.29% Implied Return Down to Worst Case

-20.23% Implied Return Down to Worst Case

127% Implied Return to CM 5-Year Sell Target

110% Implied Return to CM 5-Year Sell Target

Reward-to Risk

3-to-1 Reward Risk Based on Near-Term Sell

2.3-to-1 Reward Risk Based on Near-Term Sell

7.4-to-1 Reward Risk to CM 5-Year Sell Target

5.5-to-1 Reward Risk to CM 5-Year Sell Target

Numbers have been rounded. Implied returns are based on the average price for Westrock on November 18, 2019 and the closing price of International Paper on November 18, 2019. Past performance is not indicative of future results. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that Westrock or International Paper were or will prove to be profitable. Source: Century Management



S&P 500 Paper Packaging Sub Industry EV to EBITDA

| Low | | High | Days | | | % of Time Likely to Go Higher |
|----------------|---|--------------|---|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 25.00 | - | 35.00 | 88 | 1.1% | 100.0% | 0.0% |
| 23.00 | - | 25.00 | 22 | 0.3% | 98.9% | 1.1% |
| 21.00 | - | 23.00 | 159 | 2.1% | 98.6% | 1.4% |
| 19.00 | - | 21.00 | 133 | 1.7% | 96.5% | 3.5% |
| 17.00 | - | 19.00 | 205 | 2.7% | 94.8% | 5.2% |
| 15.00 | - | 17.00 | 627 | 8.1% | 92.1% | 7.9% |
| 13.00 | - | 15.00 | 508 | 6.6% | 84.0% | 16.0% |
| 11.00 | - | 13.00 | 1257 | 16.3% | 77.4% | 22.6% |
| 9.00 | - | 11.00 | 1725 | 22.4% | 61.0% | 39.0% |
| 7.00 | - | 9.00 | 2189 | 28.5% | 38.6% | 61.4% |
| 5.00 | - | 7.00 | 712 | 9.3% | 10.2% | 89.8% |
| 3.00 | - | 5.00 | 69 | 0.9% | 0.9% | 99.1% |
| | | | 7694 | | | |
| Current | | 8.78 | 01/27/2020 | | 36.2% | 63.8% |
| | | 0.24 | Standard Deviations below the median | | | |
| High | | 33.26 | 07/19/2013 | | | |
| Low | | 4.08 | 01/18/1996 | | | |
| Average | | 10.96 | | | | |
| Median | | 9.80 | | | | |
| Std Dev | | 4.30 | | | | |

Data from Bloomberg: 01/31/1990 to 01/27/2020



S&P 500 Paper Packaging Sub Industry EV to Sales

| Low | | High | Days | | | % of Time Likely to Go Higher |
|----------------|---|-------------|---|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 4.05 | - | 4.40 | 20 | 0.3% | 100.0% | 0.0% |
| 3.70 | - | 4.05 | 46 | 0.6% | 99.7% | 0.3% |
| 3.35 | - | 3.70 | 0 | 0.0% | 99.2% | 0.8% |
| 3.00 | - | 3.35 | 0 | 0.0% | 99.2% | 0.8% |
| 2.65 | - | 3.00 | 0 | 0.0% | 99.2% | 0.8% |
| 2.30 | - | 2.65 | 1 | 0.0% | 99.2% | 0.8% |
| 1.95 | - | 2.30 | 614 | 7.8% | 99.1% | 0.9% |
| 1.60 | - | 1.95 | 1862 | 23.8% | 91.3% | 8.7% |
| 1.25 | - | 1.60 | 2788 | 35.6% | 67.5% | 32.5% |
| 0.90 | - | 1.25 | 2200 | 28.1% | 31.9% | 68.1% |
| 0.55 | - | 0.90 | 293 | 3.7% | 3.7% | 96.3% |
| 0.20 | - | 0.55 | 0 | 0.0% | 0.0% | 100.0% |
| | | | 7824 | | | |
| Current | | 1.44 | 01/27/2020 | | 56.2% | 43.8% |
| | | 0.14 | Standard Deviations above the median | | | |
| High | | 4.13 | 07/10/1995 | | | |
| Low | | 0.63 | 03/09/2009 | | | |
| Average | | 1.45 | | | | |
| Median | | 1.38 | | | | |
| Std Dev | | 0.41 | | | | |

Data from Bloomberg: 01/31/1990 to 01/27/2020



WestRock Co EV to EBITDA

| Low | | High | Days | | | % of Time Likely To Go Higher |
|----------------|---|--------------|---|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 12.90 | - | 13.50 | 23 | 2.0% | 100.0% | 0.0% |
| 12.30 | - | 12.90 | 95 | 8.3% | 98.0% | 2.0% |
| 11.70 | - | 12.30 | 181 | 15.8% | 89.7% | 10.3% |
| 11.10 | - | 11.70 | 136 | 11.9% | 73.9% | 26.1% |
| 10.50 | - | 11.10 | 105 | 9.2% | 62.0% | 38.0% |
| 9.90 | - | 10.50 | 37 | 3.2% | 52.9% | 47.1% |
| 9.30 | - | 9.90 | 72 | 6.3% | 49.7% | 50.3% |
| 8.70 | - | 9.30 | 140 | 12.2% | 43.4% | 56.6% |
| 8.10 | - | 8.70 | 31 | 2.7% | 31.2% | 68.8% |
| 7.50 | - | 8.10 | 75 | 6.5% | 28.4% | 71.6% |
| 6.90 | - | 7.50 | 133 | 11.6% | 21.9% | 78.1% |
| 6.30 | - | 6.90 | 118 | 10.3% | 10.3% | 89.7% |
| | | | 1146 | | | |
| Current | | 6.78 | 01/28/2020 | | 6.9% | 93.1% |
| | | 1.44 | Standard Deviations below the median | | | |
| High | | 13.18 | 07/17/2017 | | | |
| Low | | 6.07 | 12/24/2018 | | | |
| Average | | 9.79 | | | | |
| Median | | 9.78 | | | | |
| Std Dev | | 2.08 | | | | |

Data from Bloomberg: 06/24/2015 to 01/28/2020



WestRock Co EV to Sales

| Low | | High | Days | | | % of Time Likely To Go Higher |
|----------------|-------------|------|---|-------|--------------|-------------------------------|
| | | | Number of Days | % | Cumulative % | |
| 1.90 | - | 2.00 | 3 | 0.3% | 100.0% | 0.0% |
| 1.80 | - | 1.90 | 40 | 3.5% | 99.7% | 0.3% |
| 1.70 | - | 1.80 | 48 | 4.1% | 96.3% | 3.7% |
| 1.60 | - | 1.70 | 25 | 2.2% | 92.1% | 7.9% |
| 1.50 | - | 1.60 | 73 | 6.3% | 90.0% | 10.0% |
| 1.40 | - | 1.50 | 113 | 9.8% | 83.7% | 16.3% |
| 1.30 | - | 1.40 | 203 | 17.5% | 73.9% | 26.1% |
| 1.20 | - | 1.30 | 307 | 26.5% | 56.4% | 43.6% |
| 1.10 | - | 1.20 | 214 | 18.5% | 29.8% | 70.2% |
| 1.00 | - | 1.10 | 119 | 10.3% | 11.3% | 88.7% |
| 0.90 | - | 1.00 | 12 | 1.0% | 1.0% | 99.0% |
| 0.80 | - | 0.90 | 0 | 0.0% | 0.0% | 100.0% |
| | | | 1157 | | | |
| Current | 1.11 | | 01/28/2020 | | 14.5% | 85.5% |
| | 0.80 | | Standard Deviations below the median | | | |
| High | 1.94 | | 07/02/2015 | | | |
| Low | 0.91 | | 12/24/2018 | | | |
| Average | 1.32 | | | | | |
| Median | 1.28 | | | | | |
| Std Dev | 0.20 | | | | | |

Data from Bloomberg: 06/24/2015 to 01/28/2020



WestRock Company

| Ticker | | WRK |
|--------------------|-------------|-----|
| Date | 1/21/20 | |
| Price | 41.6 | |
| Mkt Cap | 10.7 | |
| CM PRICE STRUCTURE | | |
| WC | 33.0 | |
| BUY | 41.8 | |
| FV | 51.0 | |
| SELL | 60.3 | |
| 5 Yr. Sell | 98.0 | |
| Dividend | 1.86 | |
| Yield | 4.47% | |

| EV/EBITDA | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-----------|------|------|------|------|------|------|-------|-------|-------|
| WC | 6 | 35.3 | 41.8 | 47.4 | 53.9 | 60.8 | 68.0 | 75.5 | 83.4 |
| BUY | 6.72 | 43.8 | 50.8 | 56.7 | 63.6 | 70.8 | 78.3 | 86.2 | 94.5 |
| FV | 7.61 | 54.4 | 61.9 | 68.3 | 75.5 | 83.1 | 91.1 | 99.4 | 108.1 |
| SELL | 8.5 | 65.0 | 73.1 | 79.8 | 87.4 | 95.4 | 103.8 | 112.6 | 121.7 |

| EV/SLS | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|--------|------|------|------|------|------|------|------|-------|-------|
| WC | 0.99 | 33.4 | 37.5 | 41.9 | 47.2 | 52.8 | 58.7 | 64.9 | 71.4 |
| BUY | 1.19 | 47.3 | 51.6 | 56.4 | 62.0 | 67.9 | 74.0 | 80.5 | 87.3 |
| FV | 1.32 | 56.5 | 61.0 | 65.9 | 71.7 | 77.8 | 84.2 | 90.9 | 97.9 |
| SELL | 1.45 | 65.7 | 70.4 | 75.5 | 81.5 | 87.7 | 94.3 | 101.2 | 108.4 |

| P/E | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------|-------|------|------|------|------|------|------|-------|-------|
| WC | 9 | 30.8 | 36.7 | 40.7 | 44.8 | 49.1 | 53.5 | 58.2 | 62.9 |
| BUY | 10.80 | 36.9 | 44.1 | 48.8 | 53.8 | 58.9 | 64.3 | 69.8 | 75.5 |
| FV | 13.15 | 45.0 | 53.6 | 59.5 | 65.5 | 71.7 | 78.2 | 85.0 | 92.0 |
| SELL | 15.50 | 53.0 | 63.2 | 70.1 | 77.2 | 84.6 | 92.2 | 100.2 | 108.4 |

| P/FREE CASH | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-------------|-------|------|------|------|------|------|-------|-------|-------|
| WC | 8.5 | 32.6 | 38.8 | 42.5 | 49.7 | 53.6 | 57.6 | 61.7 | 65.9 |
| BUY | 10.20 | 39.1 | 46.6 | 51.0 | 59.6 | 64.3 | 69.1 | 74.0 | 79.1 |
| FV | 12.60 | 48.3 | 57.5 | 63.0 | 73.7 | 79.4 | 85.4 | 91.5 | 97.7 |
| SELL | 15.00 | 57.5 | 68.5 | 75.0 | 87.7 | 94.6 | 101.6 | 108.9 | 116.3 |

| AVERAGE | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---------|--|------|------|------|------|------|------|-------|-------|
| WC | | 33.0 | 38.7 | 43.1 | 48.9 | 54.1 | 59.5 | 65.1 | 70.9 |
| BUY | | 41.8 | 48.3 | 53.2 | 59.7 | 65.5 | 71.4 | 77.6 | 84.1 |
| FV | | 51.0 | 58.5 | 64.2 | 71.6 | 78.0 | 84.7 | 91.7 | 98.9 |
| SELL | | 60.3 | 68.8 | 75.1 | 83.4 | 90.6 | 98.0 | 105.7 | 113.7 |

Source: Century Management, Bloomberg. CM 5-year sell point based on the 2025 average sell target. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that the markets, sectors, or companies discussed in this presentation were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.



International Paper

| Ticker | IP |
|--------------------|--------------|
| Date | 1/21/20 |
| Price | 44.54 |
| MktCap(bil) | 17.5 |
| CM PRICE STRUCTURE | |
| WC | 36.6 |
| BUY | 44.2 |
| FV | 55.8 |
| SELL | 67.4 |
| 5 Yr. Sell | 103.4 |
| DIVIDEND | \$2.05 |
| DIV. YIELD | 4.60% |

| EV/EBITDA | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|-----------|------|------|------|------|------|------|------|------|-------|
| WC | 6.75 | 36.7 | 35.0 | 41.1 | 46.3 | 52.2 | 59.3 | 64.9 | 72.1 |
| BUY | 7.56 | 44.7 | 42.6 | 49.4 | 55.0 | 61.4 | 69.2 | 75.2 | 83.0 |
| FV | 8.53 | 54.2 | 51.7 | 59.2 | 65.3 | 72.4 | 81.0 | 87.5 | 96.1 |
| SELL | 9.5 | 63.8 | 60.9 | 69.0 | 75.7 | 83.4 | 92.8 | 99.9 | 109.2 |

| EV/SLS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|--------|------|------|------|------|------|------|------|------|-------|
| WC | 1.2 | 37.9 | 38.7 | 41.2 | 45.4 | 50.2 | 55.1 | 60.5 | 66.3 |
| BUY | 1.32 | 44.7 | 45.4 | 48.1 | 52.5 | 57.7 | 62.9 | 68.6 | 74.8 |
| FV | 1.51 | 55.4 | 56.1 | 59.0 | 63.8 | 69.5 | 75.2 | 81.5 | 88.3 |
| SELL | 1.70 | 66.1 | 66.7 | 69.8 | 75.1 | 81.3 | 87.5 | 94.4 | 101.7 |

| P/E | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|------|-------|------|------|------|------|------|------|------|-------|
| WC | 9 | 38.3 | 32.2 | 37.0 | 40.8 | 45.2 | 50.6 | 54.3 | 59.5 |
| BUY | 11.25 | 47.9 | 40.3 | 46.3 | 51.0 | 56.4 | 63.3 | 67.9 | 74.3 |
| FV | 13.38 | 56.9 | 47.9 | 55.0 | 60.6 | 67.1 | 75.2 | 80.7 | 88.4 |
| SELL | 15.50 | 65.9 | 55.5 | 63.8 | 70.2 | 77.8 | 87.2 | 93.5 | 102.4 |

| Free cash | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | |
|-----------|-------|------|------|------|-------|-------|-------|-------|-------|
| WC | 7 | 36.6 | 40.4 | 44.7 | 47.0 | 50.8 | 55.7 | 58.7 | 63.1 |
| BUY | 8.40 | 43.9 | 48.5 | 53.7 | 56.4 | 61.0 | 66.8 | 70.4 | 75.7 |
| FV | 11.70 | 61.1 | 67.5 | 74.7 | 78.6 | 85.0 | 93.1 | 98.1 | 105.5 |
| SELL | 15.00 | 78.4 | 86.5 | 95.8 | 100.8 | 109.0 | 119.3 | 125.8 | 135.3 |

| Average | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------|------|------|------|------|------|------|-------|-------|
| WC | 37.4 | 36.6 | 41.0 | 44.9 | 49.6 | 55.2 | 59.6 | 65.3 |
| BUY | 45.3 | 44.2 | 49.4 | 53.7 | 59.1 | 65.5 | 70.5 | 77.0 |
| FV | 56.9 | 55.8 | 62.0 | 67.1 | 73.5 | 81.1 | 87.0 | 94.6 |
| SELL | 68.6 | 67.4 | 74.6 | 80.5 | 87.9 | 96.7 | 103.4 | 112.1 |

Source: Century Management, Bloomberg. CM 5-year sell point based on the 2025 average sell target. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that the markets, sectors, or companies discussed in this presentation were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable.



Being Mentally Prepared

“The voice of intelligence...is drowned out by the roar of fear. It is ignored by the voice of desire. It is contradicted by the voice of shame. It is biased by hate and extinguished by anger. Most of all it is silenced by ignorance.

~Dr. Karl Menninger




“If your life is more important than your principles, you will sacrifice your principles.

If your principles are more important than your life, you will sacrifice your life.”

~Dr. Rameljack, Psychiatrist

- **Truth/Lying**
- **Anger**
- **Ego**

 Anatomy of a Lie
(Adapted from Brothers Karamazov by Fyodor Dostoevsky)

When you lie, you lose the ability to discern truth in yourself and others.



Having lied, you lose respect for yourself and other.



Not respecting anyone, you lose the ability to love.



Without love, all that remains are the base pleasures of life.



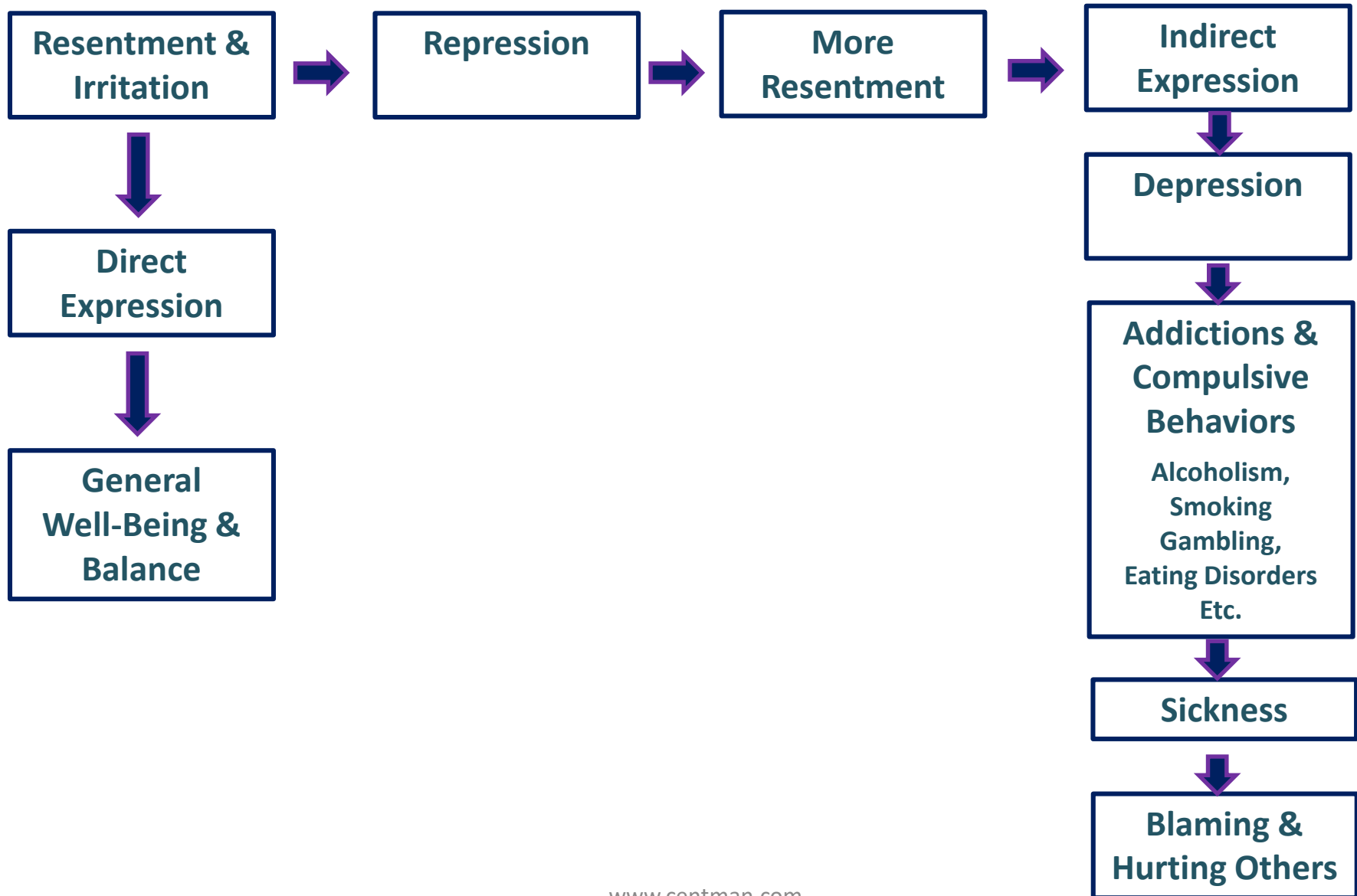
Indulging in all the base pleasures, you become morally deprave.



And It All Started With a Lie.



Anger Chart From Dr. Teutsch, Ph.D.



From anger arises delusion.



From delusion loss of memory is caused.



From loss of memory, the discrimination facility is ruined.



And from the ruin of discrimination he perishes.



Ego

- “The only way you learn to control your ego is by not feeding it.”
~David Seabury
- When you control your ego, you gain humility.
- “The last lesson of culture is humility, and if you don’t have any, you have one more lesson to learn.”
~Arnold Van Den Berg



Controlling Your Emotions

- **Truth/Lying**
- **Anger**
- **Ego**

- In order to practice these principles of being in control of your emotions and thoughts, I recommend that you study the subconscious mind.
- If you develop the ability to control your emotions and thoughts, you will create the ability to see the truth and reality, as well as exercise good judgement.
- This will allow you the strength and character to go against the crowd instead of being part of it.
- This will help you in business and in all areas of your life.



Questions & Answers



Disclosures

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