ACADEMY
CAPITAL MANAGEMENT

05/08/2019

Enclosed is your statement for the first quarter of 2019.

The spring quarter's letter regularly addresses the businesses of the stocks which were *newly* purchased over the prior year. In addition to purchasing shares of companies we had bought in prior years, last year's list was atypically long: seven new companies.* We purchase stock in a company when we have identified three conditions: first, the company's earnings have a healthy long term outlook; second, the company allocates its excess cash flows intelligently; and third, the stock of the company drops or languishes in price for an extended period. We present the following in alphabetical order.

Dublin, Ireland-based Allergan PLC (AGN) is a specialty pharmaceuticals company focused on ophthalmology and aesthetics. AGN faces the branded drug company challenge – inventing new drugs that can "move the needle" while simultaneously protecting patents from generic competition. This challenge limits growth, but the profitability of AGN's beauty and eyecare specialties are appealing. AGN's most well-known drug – Botox – makes up over 20% of its revenues. We followed AGN for years, often astonished at its premium valuation driven by takeovers. But once that activity stopped, the stock price dropped to our buy levels. We purchased shares, noting that the full enterprise valuation is now equivalent to the price of just one of its past acquisitions. While no guarantee of success, we view this as an indicator of good value.

Leverkusen, Germany-based Bayer AG (BAYRY) is a life sciences company that operates in pharmaceuticals, crop science, healthcare and animal health. BAYRY has a broad range of successful products with extended patents as well as a good drug development pipeline. Despite these strengths, BAYRY stock dropped sharply as it faces lawsuit risks related to its production of glyphosate. Glyphosate is the active ingredient of the herbicide Roundup – a product owned through BAYRY's Monsanto acquisition. Similar risks arose some years ago when we purchased Merck stock in the face of thousands of Vioxx lawsuits. Although it took time, our investment was successful then and we expect it will be here as well.

San Francisco, CA-based Charles Schwab Corp. (SCHW) is a financial services company that operates in wealth management, securities brokerage, banking and custody. SCHW provides financial services which are exceptionally low because SCHW borrows cash assets from its clients to invest in US Government securities. This business model has been extremely successful (with assets over *$3 trillion*), but low interest rates have hurt profitability and dropped the stock price to buy levels. We anticipate highly profitable ownership as SCHW's scale seems to secure its competitive position even more firmly.

Annapolis Junction, MD-based Colfax Corp. (CFX) is a diversified industrial holding company. CFX is led by the Rales brothers who are well-known for their leadership at Danaher (DHR). At DHR, they created an extraordinarily successful system for purchasing good companies and then managing them according to principles developed by the Japanese. Alas, DHR has been too expensive. But at CFX, where the Rales brothers use the same business formula, challenges in the oil and gas business drove stock prices down to our buy levels.

Menlo Park, CA-based Facebook, Inc. (FB) needs little introduction as it shares a virtual consumer internet duopoly with Google (another Academy holding). But many people are unaware that FB also owns Instagram and WhatsApp as well. FB's primary product serves as the phone book for the internet. Privacy issues and missteps in corporate strategy are relevant, but, in our opinion, do not impair the durability of its business franchise. FB is a holding that we see as long term and would welcome more price declines in its shares.

Hershey, PA-based Hershey Foods Corp. (HSY) is a household name and has been a portfolio holding before. HSY is part of packaged foods group which has seen growth and profitability affected by increasingly powerful retailers. This industry trend has dropped HSY share price despite HSY and other "snacking" companies have fared much better in maintaining prices and market share. Further, HSY's form of ownership through the Hershey Trust encourages HSY to invest for the long run – a characteristic we prefer.

Bermuda-based Liberty Latin PLC (LILA) is the largest cable company across Chile, Puerto Rico, the Caribbean and other parts of Latin America. Television is in the midst of disruptive change as subscribers move from a traditional pay television model of scheduled programming to a model of video programming on demand. This affects cable companies whose businesses were founded on specialty scheduled programming. However, due to their heavy commitment to video programming, cable companies invested heavily in the capacity of big "pipes" to the home and are naturally positioned to provide the essential utility of the 21st century: high speed internet. This secular trend is something we have successfully capitalized on for years with our Comcast holding. In addition, LILA is under the leadership of the famous billionaire "cable cowboy" – John Malone. John Malone is a PhD engineer who has led the cable industry for decades. His capital allocation is superb and has been written up in a book called "The Outsiders" chronicling the top capital allocating CEOs.

Our holdings are diverse. Some of the companies whose stock we hold are huge; some not. Some are global; some not. Some pay dividends; some don't. Some are widely diversified; some not. This diversity allows us to concentrate on the competitive strengths of our portfolio companies and to welcome market downturns that allow us to increase ownership at better prices. This is the primary reason why we are so pleased when market downturns occur. We remain optimistic that such downturns are in our future.

We hope this letter deepens your understanding of our process and your portfolio. We want you to stay informed and feel comfortable about our investing discipline. In communicating, we try to “do unto others as we would want done unto us.” If you’re new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Joyce Bell at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

*It is important to reiterate that because we manage individual portfolios but write a general letter, your portfolio may vary from the stocks assumed in our discussions.

If you would like a copy of Academy’s updated Form ADV Part2A Disclosure Brochure, please contact Sara Johnson or Kari Siler at our office.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management