

# ACADEMY CAPITAL MANAGEMENT

April 30, 2022

Enclosed is your statement for the first quarter of 2022.

As we shared in last quarter's letter, tranquil days are behind us, and rough days lie ahead. Despite the oft-repeated truth that volatility is the friend of the investor, a drop in portfolio values can be unnerving. In fact, studies show that investor reactivity hurts portfolio returns *more than any other factor*. As a pilot informs passengers that turbulence lies ahead so that they are properly prepared, we want to do the same. Your portfolio has been built and designed to withstand economic turmoil. As one friend of the firm says, "Academy seems to always be building arks." But portfolio building is only part of the process. Just as critically, your advisor is available for discussing how to best maintain emotional calm – whether that be turning off the news or reviewing portfolio holdings and cash. The combination of a well-designed portfolio *and* emotional calm are necessary for superior investment results.

Our spring quarter's letter addresses the businesses of the stocks which were *newly* purchased over the prior year. Last year's list was of typical length with four companies purchased. Purchasing stock in a company is attractive 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 stocks purchased in 2021 in alphabetical order.

Hangzhou, China-based Alibaba (BABA) is an online retailer. BABA is a leader in this space with a "first mover" advantage with nearly one billion customers. As we have shared in prior letters, one of our primary investment themes has been "digital" real estate. BABA's business approach has similarities to that of our holding in AMZN. First, BABA has the largest Gross Merchandise Value sales in the world. Next, BABA has the world's third largest cloud computing operation. Further, BABA is expanding its logistical structure while holding a strong balance sheet with over 30% of its market cap in cash and equities. As China's central bank tightened due to frothy real estate prices (somewhat akin to the US in 2007), BABA's price dropped to our buy price, and we purchased. With a price now at roughly five times core operating earnings, we view this powerful franchise as compellingly cheap.

Westbrook, ME-based Idexx Laboratories (IDXX) is a dominant provider of services to the companion animal market as well as services for livestock. Over 20 years ago, we purchased the stock and then, regrettably, sold after the stock quickly doubled. The companion animal market has exceeded our expectations as pets moved from the yard to

the home, to the bed and finally, as a favored member of the family. For years, we have unsuccessfully waited for a major price drop. Finally, after a pause in its price ascent, we purchased a small portion – as one member of investment committee put it, “planted a seed.” We are optimistic that this environment will provide lower prices and eagerly await them to expand our position. IDXX is expensive but anticipate its being a “forever” hold as a “compounder.”

Bethesda, MA-based LMT is a well-known defense contractor. We have avoided the defense contracting area in the past because it is: 1) slow growth, 2) capital intensive and 3) return regulated. However, the F-35 program created an annuity-like stream for LMT. In addition, the increasing complexity of defense programs has created an increasingly entrenched position. Further, we were impressed with the addition of the new CEO, James Taiclet who came after a successful tenure at American Tower. Just as the internet itself was developed through the defense industry, we think that LMT might have powerful technologies with commercial applications. CEO Taiclet has the ability to redevelop into the commercial market those products which were developed for defense. With the stock at a low price just prior to the war in Ukraine, we made what appears to be a timely purchase.

Duluth, GA-based Primerica (PRI) needs little introduction as this “term only” life insurance company has the largest sales force in the US (formerly known as AL Williams & Co). As the financial industry has become more focused on moving from High Net Worth to Ultra High Net Worth, PRI has developed a low-risk, high yield business model to assist emerging middle and upper middle-class families. Their 130,000 sales associates are led by 6,000 RVPs within a self-starter culture combining inspiration, discipline and mental toughness. PRI is a “creamer” – a category of company that we prefer because of its asset lightness and durability.

The purchases made during 2021 highlight our increased emphasis on company dominance. As one of our clients noted, “life is better at the top of the food chain.” We used the events of 2021 to continue a shift in emphasis from buying good companies at great prices - with the prospect of three to five-year investment holds -towards buying great companies at good prices - with an eye on “forever.”

Our holdings are in stocks of excellent companies. Some of these companies are huge; some not. Some are global; some not. Some pay dividends; some don't. Some are widely diversified; some not. As highlighted here, the common denominator is a set of competitive strengths that allows them to be durable as well as growing during the difficult times we are likely to endure with the current anti-inflationary policies of the Fed.

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 on our website - [www.academycapitalmgmt.com](http://www.academycapitalmgmt.com). If you would like a copy of Academy's Form ADV - Part II (our regulatory filing with the SEC), please contact our office at 254-751-0555.

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

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