

Performance	QTD	YTD
<b>DJ Industrial Average</b>	10.2 %	9.7%
<b>S&amp;P 500</b>	12.1%	18.4%
<b>Russell 2000</b>	31.3%	19.9%
<b>allcapbros</b>	<b>30.9%</b>	<b>107.5%</b>

## Positioning

We returned thirty-six percent in Q4 2020, keeping the momentum we had coming into the quarter. This brought our total return for the 2020 CY to 107%. Most of our returns were generated from our largest position and several tactical plays. We show [here](#) a front seat view for how our thinking evolved through the COVID market crises.

As of this writing, the forward P/E ratio on the S&P 500 is 21.8 with the ten-year at 1.4%. The 25-year average P/E is 16.6 with the average ten-year yield over the same period standing at 3.6%. Looking only at P/E ratios, the market appears overvalued and is trading around 1.5 standard deviations away from its norm. If you use more normalized methods of comparing earnings ratios like the CAPE, we observe only 1.25 standard deviations away from normal. We have reduced our aggression slightly given that “coming off of zero” is slightly more pernicious to certain pockets of the equity market (all else equal) than a general rise in rates from a more normalized starting level. We write about the theoretical argument for this [here](#).

Our focus currently and always is picking companies that are undervalued and have strong underlying trends supporting them. We have provided summaries on some of our newly added positions below. More in-depth valuations are on our website [allcapbros.com](http://allcapbros.com).

## New Positions

### FREE

Whole Earth is a consumer package company with multiple market-leading brands trading at around 10x 2021 earnings. Given its dominance in the artificial sweetener and licorice industries along with a rapidly growing natural sweetener segment, we believe FREE has a 50 to 100 percent upside from here.

FREE’s dominance in the licorice industry for the last eighty years (since WW2!) is one of the more impressive moats we have seen. FREE is about five to six times larger than its next largest competitor. This is the cash cow of FREE is the licorice segment MAFCO. This is not the candy licorice

that we all know (although this is one of the end confectionery uses for licorice) but the licorice extract and derivatives from the plant. Its main use is in cigarettes/chew/sniff as a moistening and flavor agent. About half of its licorice revenue is from tobacco usage. The other uses of licorice are pharmaceutical applications as a sweetening agent to give the medication a good taste - think Flintstone vitamins. These other segments are growing at around 5% per year. Licorice is an extremely small cost (about .001% of the cost of the product) to the customer with large ramifications if the quality, supply, or taste changes hence why these contracts are extremely sticky and durable. MAFCO has dominated the licorice industry for the last 150 years, and it currently has greater than 50 percent market share.

FREE's licorice segment alone should be worth around \$450mm. This is due to its high margins and enormous competitive advantages. Its licorice segment is generating about \$40mm in FCF per year. Although its revenue from tobacco will decrease in pace with consumption - roughly 2% per annum - we believe it will be able to more than make up for this through expanding other end-use applications such as cosmetics, pharmaceuticals, and confectioners.

FREE's sweetener segment needs to be decoupled into its artificial and natural sweeteners to be valued properly. Given the longevity of the dominance of brands such as Canderel, Equal, we believe a 10x multiple on earnings would be adequate. This would value this segment at around \$120mm or around 1x revenue. Its other growth brands Whole Earth, Pure Via, and Swerve with the distribution arm of the parent company should be able to reach its full potential within 3-5 years. This would put its combined revenue anywhere between \$150mm and \$250mm. Conservatively assuming that it has the same margins as Canderel and Equal (even though these are more premium brands) would yield a valuation of around \$150 mm for these two segments. Adding all the segments together would put FREE at about \$770mm and after subtracting out the \$150mm in debt, adding the value of its sizable inventory (around \$80mm due to having about two years of licorice inventory), and factoring in the dilution would yield an equity value of around \$630mm. An upside of around 50 percent. Depending on how well its natural brands do, FREE could be substantially more.

## LEU

Centrus is a compelling risk reward bet on the future of US uranium enrichment. It is the sole US owned uranium enrichment manufacturer, representing billions of dollars of IP and centrifugal technology. Combined with their recent price reset on their long term contracts making them considerably more profitable, there are multiple ways to win with Centrus.

Centrus Energy (LEU) represents the efforts of the American government's uranium enrichment program that was spun off in 1999 for roughly 3B dollars. It was heavily reliant on government backing to support its facilities and after the Fukushima nuclear disaster, they saw this support dry up. As a result it shuttered its enrichment facilities. This is also the reason why there are no other American owned uranium enrichment facilities. Centrus now acts in a supplier capacity to supply LEUs (low enriched uranium) to American and foreign owned utilities from its Russian counterpart.

Nuclear power is both carbon free and one of the most reliable sources of power today. It has provided the United States with about 20% of its power for the last twenty years. It is able to provide one thing that solar and wind cannot, a steady baseline of power that is not subject to variation. Nuclear power has been subject to unlucky events such as nuclear disasters like the tsunami at Fukushima causing nuclear waste to spread. These events have given nuclear power a tarnished reputation. As Vaclav Smil calls it, nuclear power is a “successful failure”. Looking at the chart below shows that nuclear power generation is back at pre-Fukushima levels with China and Russia aggressively expanding with new nuclear reactors coming online. The US has produced the same amount of nuclear power for the last decade.

The DOE partnered with Centrus as it is the only unobligated US owned enrichment company. This is a key stipulation in any nuclear material the government obtains, the material nor the technology can come from foreign sources. For commercial purposes, utilities can buy from foreign sources, the only LEU enrichment facility in the US is in New Mexico owned by a consortium of European countries. This facility enriches uranium to 5% and has not yet obtained a license to enrich up to 20%. This stems from heavy regulation and also shows why several companies have chosen to partner with Centrus. HALEU is a pressing need for new nuclear reactors given its advantage and has been listed as the main concern at the Advanced Nuclear Developers summit in April 2020. The following letter the NEI sent to the DOE shows projected HALEU needs in 2035, going from about three metric tons to be used in 2021 to five hundred tons in 2035, representing a CAGR greater than 40%!

There does not seem to be too much downside with Centrus other than it being illiquid and perhaps dead money for awhile. Uranium and LEU prices are trending up due to supply constraints and Centrus benefits from this as it locked in much cheaper prices in early 2019. Thus it is buying cheap LEUs and selling them for substantially higher prices. There are multiple ways to win, improved cash flows from Centrus showing how cheap it is along with the realization of the value of their IP. More in-depth valuations are on our website [allcapbros.com](http://allcapbros.com)