

# BARRON'S

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## BARRON'S ROUNDTABLE

# Mario Gabelli: Bullish on Media and Entertainment

January 20, 2018



PHOTO: JEREMY LIEBMAN FOR BARRON'S

***Barron's: Give us your best ideas for 2018, Mario.***

***Mario Gabelli***[wheeling a model of a skeleton on a stand to the front of the table]: This is an active manager.

***Very funny! But reports of his death are premature.***

**Gabelli.** Last year was the year of As: Alphabet [ticker: GOOGL], Amazon.com [AMZN], Apple [AAPL], Alibaba [BABA]. I am focusing this year on Bs. First, basketball [throws a ball across the room]. Madison Square Garden [MSG] has 23.5 million shares outstanding. The stock trades for \$213, and the equity capitalization is about \$5 billion. The company has about \$1.1 billion of net cash. MSG is a sports and entertainment holding company. It owns the New York Knicks, an exciting basketball team. They beat Dallas last night. Other brands include the Radio City Rockettes, and the New York Rangers ice hockey teams. The company owns a variety of live-entertainment venues, including the Garden and the Beacon Theater in New York, and the Forum in California. Millennials and the Gen Z population love live entertainment.

MSG also owns real estate. One of the hottest places in the U.S. is the Hudson Yards development on the West Side of Manhattan. MSG has air rights above Madison Square Garden. Adding up the value of the company's assets, the stock could be worth \$280 to \$300 a share.

***How might MSG achieve that value, or something close to it?***

**Gabelli.** Deal making has been a big part of MSG's history, and that of its CEO, James Dolan. Madison Square Garden was spun out of Cablevision, which was then sold to Altice [ATC.Netherlands], the European telecom company. Several opportunities for deal making exist. You have entertainment and the sports teams.

Next B is baseball [throws a baseball across the room; Gundlach catches it]. Look at that catch! Liberty Braves Group [BATRA] is another media and entertainment company. It is part of John Malone's ecosystem. Liberty Braves is a tracking stock that owns Liberty Media's interest in the Atlanta Braves. Malone is as tax-sensitive an investor as Warren Buffett, but he

is more visible about it. With Liberty Braves, you're also getting the new SunTrust Park built in Cobb County, an Atlanta suburb. Attendance has gone from roughly 25,000 to 31,000 per game. The team is improving, too. Plus, the company owns land.

***How has the stock performed?***



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**Mario Gabelli**

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**Chairman and CEO**

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**Gamco Investors**

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**Rye, N.Y.**

**Gabelli:** Liberty Braves has about 58.5 million shares outstanding. At \$22 apiece, the market cap is \$1.3 billion. This is a small-cap stock. Based on prices paid for other sports teams, coupled with the stadium and the Battery Atlanta, a mixed-use property, the company could be worth \$35 a share in two years.

My next B is betting. MGM Resorts International [MGM] is based in Las Vegas and owns casinos in the U.S. and Macau. It is run by James Murren, who has done a great job coordinating as CEO. The company has 566 million shares outstanding, and

the stock is trading for \$33. The market cap is \$19 billion. MGM put most of its U.S. properties into a REIT [real estate investment trust], MGM Growth Properties [MGP], in 2016. This is worth about \$10.50 a share at market. If I value the publicly traded Macau properties, or MGM China Holdings [2282. Hong Kong] at \$10.50 and MGM's stake in the REIT at \$10.50, I'm paying only \$12 a share for the U.S. business. Assuming an ex-China, ex-MGM enterprise value [market value plus net debt] of \$14 billion, and 2018 Ebitda [earnings before interest, taxes, depreciation, and amortization] of \$1.8 billion, the stock is selling for about eight times EV to Ebitda.

MGM is opening a new casino in Springfield, Mass. Steve Wynn [founder, chairman, and CEO of Wynn Resorts (WYNN)] is opening one in Everett, Mass. Once MGM's new Macau casino and the Springfield property come on-line, capex [capital expenditures] will be de minimus. Then, it's a question of what Murren will do next.

***What is your bet?***

***Gabelli.*** The next transformation of Las Vegas will focus on e-sports and e-gaming, and MGM will participate and benefit.

***Paul Wick.*** There has been a lot of insider selling at MGM by the executive management team.

***Gabelli.*** I'm delighted. That increases liquidity.

***What was the rationale for the REIT's creation?***

***Gabelli.*** About 10-12 years ago, many casino stocks collapsed in price. Wynn did something brilliant. He said, let's arbitrage multiples on a global basis, and took his Macau casino company public in Hong Kong. That jump-started the entire process. Sheldon Adelson [chairman and CEO of Las Vegas Sands (LVS)] followed suit with his Macau properties. Returning to MGM, the company spun off some properties into a separate subsidiary in April 2016 and allowed outside investors to invest in the real estate. The properties had a capitalization rate [rate of return] of 8%. After creating the REIT and taking it public, MGM's multiple improved dramatically. MGM didn't put the Bellagio or MGM Grand into the REIT, so the company has other assets it can monetize. The Macau asset, MGM China, is undervalued in part because of concerns about what Chinese President Xi Jinping is going to do. Also, gaming-company licenses in Macau are up for renewal in 2022. There is some question about the renewal process.

***View Mario Gabelli's Picks***

***Are rising interest rates a risk to the REIT?***

***Gabelli.*** The stock could come down a bit if rates go up, but bear in mind that the new tax law allows for a 20% deduction on income from REITs. That would offset some of the negative hit from higher rates.

My next B involves booze. Beer is more than a \$600 billion business globally. Wine is about \$300 billion, and spirits are about \$475 billion. Demand is increasing, as is the emphasis on premium products. This bottle of Jameson Irish Whiskey [holds up bottle] is about \$18. Newer premium products are around \$30. Booze companies have pricing power. While all are

attractive, the stock I'm recommending today is Davide Campari-Milano [CPR.Italy], which I have mentioned before. The company is based in Milan. It is trading for 6.30 euros (\$7.68), and there are 1.160 billion shares outstanding. We estimate that 2017 revenue totaled €1.8 billion. The company earned 17 euro cents a share two years ago and about 20 euro cents this past year. It could earn maybe 23 euro cents in 2018. Management is excellent. They are buying niche products, most recently Grand Marnier. Other company brands include Campari, Aperol, Wild Turkey, and SKYY Vodka. I like the booze business and, unfortunately, so does the rest of the world.

***We can't wait to hear your next B.***

***Gabelli.*** Body parts! As the population ages, people are dealing with replacement body parts. It is a \$38 billion business on a global basis. Knee and hip replacements are \$14 billion. Spine parts are \$9 billion. Trauma-related replacements are another \$5.5 billion. My pick is Zimmer Biomet Holdings [ZBH], which makes products for knee replacements, spine surgery, and other uses. The industry is growing by 2%-3% a year. There are 202 million shares outstanding, and the stock trades around \$125. Shares jumped recently when a new CEO came on board from Medtronic [MDT]. Zimmer's market cap is \$25 billion, and the company has about \$10 billion of net debt stemming from its \$14 billion purchase of Biomet in June 2015. We expect that Zimmer will earn about \$8.50 a share this year, and will do \$9.50 next year and \$14 over the next three or four years.

Moving on, let's talk about another B—building products. GCP Applied Technologies [GCP] was spun out of W.R. Grace in February 2016. It is based in Cambridge, Mass., and run by Gregory Poling, who has been with the company since 1977. GCP makes chemical additives for concrete and cement. It also makes waterproofing products used in construction. Its chief competitor is a Swiss company, Sika [SIK.Switzerland]. GCP has a transit-management program called Verifi that allows it to monitor ready-mix trucks and get everything to the right place at the right time. GCP could generate revenue of about \$1.2 billion this year. Earnings could climb in the next three or four years from \$1.10 a share to nearly \$2. The company has about \$195 million in net cash before a year-end transaction. Abby talked earlier today about how the tax law will create some background noise in calendar fourth-quarter earnings, and that will be the case here.

***Meryl Witmer.*** It's a great company.

***Gabelli.*** You own it?

***Witmer.*** I don't own it now.

## ROUNDTABLE PART 2

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- Henry Ellenbogen: The Case for a Credit Bureau, a Ski Resort, and More
- Mario Gabelli: Bullish on Media and Entertainment
- Jeffrey Gundlach: Bullish on Commodities and Bank Loans
- Abby Joseph Cohen: Drilling for Oil and Making Gadgets
- William Priest: Bullish on Screen Technology and Chip Gear
- Scott Black: Making Chips and Crushing Sand
- Meryl Witmer: Used Cars and Carbon Black
- Oscar Schafer: Loading Up on Auto Parts, Off to the Movies
- Paul Wick: How to Play the Big Trends in Tech

construction business is turning around, too. The third part of CNH is Iveco, a European truck maker. It has about 6% of the European heavy-duty-truck market. Paccar [PCAR], based near Seattle, has 16%. It is logical for Paccar and Iveco to merge because of consolidation elsewhere in the European and U.S. markets. Second, Sergio Marchionne [chairman of CNH and CEO of Fiat Chrysler] spun Ferrari [RACE] out of Fiat Chrysler in 2016. The stock came public at \$52, fell sharply, and now trades around \$110. My thinking is that his mind-set, before he steps down, is to do a transaction with Iveco. CNH earnings will go from 65 cents a share in 2018 to \$1.25 by 2021-22. The stock could trade for 16 times those earnings, and you make a 50% profit in the next three years.

### ***We'd take it.***

***Gabelli:*** Looking at intermodal transportation in the U.S., more than 71% is trucking, 13% is rails, 11% is pipelines, and 6% is inland waterways. There has been a surge in demand for truck components. In December alone, there was a 37% increase in Class 8 truck orders. Paccar, which makes two truck brands, Kenworth and Peterbilt, participated fully in that. I am recommending Paccar, as well. The stock is selling for \$74. The company has a great balance sheet. It has been around a long time. The size of the Class 8 market in the U.S. will rise dramatically in the next 12 months. Europe will hold its own, and Latin America will do well.

***Gabelli:*** CNH Industrial [CNHI], the former Case New Holland, is another construction play. Shares of Caterpillar [CAT] and Deere [DE] have gone up sharply, and appropriately so. CNH hasn't risen as much. CNH has 1.3 billion shares and is trading for \$13.75. The company is controlled by Exor, the Agnelli family investment company that also controls Fiat Chrysler Automobiles [FCAU]. Both Deere and CNH underproduced agricultural equipment to reduce inventory in the system. If demand stays flat, production will be rising. The

Paccar could report earnings of \$4.40 a share for 2017. This year, they could do \$5.10 to \$5.20, and for 2019 our estimate is for \$6.20 per share. I like both stocks as part of an infrastructure play.

My next B is business jets, and the company is Textron [TXT]. It has 263 million shares. Cessna is Textron's business-jet brand. It introduced a new plane, the Cessna Citation Latitude, in 2015, and it has been doing extremely well. Next up is the Cessna Citation Longitude. Textron also owns Bell Helicopter, and makes aircraft parts and industrial products.

The big question I have about Textron is this: Boeing [BA] put an arm around Embraer [ERJ] the other day. [The U.S. and Brazilian aircraft makers are discussing a possible merger.] Textron has put a lot of money into the Scorpion, an ISR/Strike [Intelligence Surveillance Reconnaissance] jet used by the military. It is faster than a turboprop. Embraer makes a turboprop known as the A-29 Super Tucano. The U.S. Air Force seems ready to sign a contract for 300 new planes, and the Scorpion, which costs \$20 million, is efficient and highly desired by the people who fly these things in combat. If Boeing buys Embraer, given its political clout, it is going to try to convince the Air Force to buy the Tucano instead.

***And if Boeing succeeds?***

***Gabelli:*** Work in progress. For the data purists among you, there are 21,350 commercial and 36,700 business aircraft in the worldwide fleet. The Chinese own comparatively few. At some point, will the Chinese market open up? Textron, based in Providence, R.I., and run by Scott Donnelly, is an interesting play on global aviation.

My last B is Energizer Holdings [ENR], the battery maker that was spun out of Edgewell Personal Care [EPC] in July 2015. Batteries are a \$6 billion business globally. There is no growth. Duracell was bought by Berkshire Hathaway [BRK.A]. Spectrum Brands Holdings [SPB] is looking to sell its Rayovac unit. [After the Roundtable, Energizer announced its intention to buy Rayovac for \$2 billion.] Meanwhile, the price of zinc, a major ingredient in batteries, has gone from 60 cents a pound to \$1.30 in recent years. Energizer has a terrific management team. Last summer, the CEO of Post Holdings [POST], another company I have sometimes recommended, joined the board.

Energizer generates half its revenue overseas. The euro is strengthening against the dollar, as is the pound. Many companies will get a tailwind from currency translation. The stock is trading for \$50, and earnings will rise sharply in the next three years.

***You haven't said much today about media consolidation, one of your specialties. Any thoughts?***

**Gabelli.** Let's look at 21st Century Fox [FOX] and Disney [DIS]. Everyone thinks Rupert Murdoch [executive chairman of Fox and Barron's parent, News Corp (NWS)] will sell much of 21st Century Fox to Disney and become a passive investor. But zebras don't change their stripes. Murdoch and his related interests, which I have followed for 40-odd years, will have about 100 million, or \$11 billion worth, of Disney shares. This is a win-win for Disney and for Rupert.

**Thank you, Mario.**

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