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AN HOUR WITH GUY SPIER

Back in 2008 Guy Spier and his good friend Mohnish Pabrai paid €650,000 to win the auction for the annual charity lunch with Warren Buffett. This gave them an afternoon with the world's most famous investor and the publicity associated with the event meant that I heard the name Guy Spier for the very first time.

A few years later I heard the name again as a couple of my former colleagues attended an event that Guy organised known as ValueX Klosters. This event is a place where "like-minded people can develop their worldly wisdom, learn to be better investors, and become better people in the process." It has become an annual event well known among the global investing community and it is an event that I hope to attend in the not too distant future.

It was 2015 however when Guy really grabbed my attention when I had the opportunity to read his book "The Education of a Value Investor". I really enjoyed his book because I could relate to so much of what was written. I highly recommend it to anyone interested in investing.

Having read his book, I decided to have a quick look at his website and this led to me signing up to be put on his email list. Little did I realise that signing up to be on Guy's email list means that you end up receiving Christmas cards with pictures of all the Spier family! I also didn't realise that this would also mean that I signed up to the possibility that I would get an email asking me if I was free to meet him because he happened to be in Ireland and had some spare time. Luckily, I was able to fit into one of the time slots that he had available and so it was that last Saturday he gave me an hour of his time and luckily for me I didn't have to bid in an auction for the privilege!

Our conversation covered many different issues. For example, we talked about my background at AIB Investment Managers and my current views on Japan. We talked about the long transformation of Philips from a conglomerate to a medical company. We also talked about people that Guy knows well like Mohnish Pabrai and Vitaliy Katsanelson. We even spoke about our mutual frustration with our experience of investing in Horsehead Holdings (potentially a topic for a future opinion piece). It was however, our conversation about semiconductors and in particular analogue semiconductors that I want to cover in this opinion piece.

During our conversation we talked about how both of us love to find companies that we can buy and hold for the long term. They tend to be those lovely companies that have great franchises/economic moats and can reinvest their free cash flow back into the business, thus compounding returns. I therefore decided to mention the analogue semiconductor companies as potential candidates for membership of the long term buy and hold club and I told him that I had written about this topic on my website. I was a little bit surprised when Guy made it clear that he knew nothing about analogue semiconductors but had spent some time recently looking at Micron Technology, a leading player in the digital semiconductor sector. I suppose I assumed that Guy meets so many investors that inevitably at some stage he would have come across these great analogue semiconductor companies. It’s not as if there are thousands of great franchises/compounders out there!

We then spent a couple of minutes talking about what is an analogue semiconductor, who are the major players in the space and why it is that the franchise exists. I even told him the story I wrote about in opinion piece 16 (the one the CFO of Linear Technology told me about the fund manager that had wanted to be an analogue designer but had found it too difficult).

After the meeting I was thinking about this conversation and it made me realise that this had been a useful way of hammering home something I already knew but sometimes forget - there are just not enough hours in the day to get to cover everything and in this particular case I was talking about technology companies in a cyclical industry that would not necessarily be regarded as a traditional area for value investors to look. Guy has only so many hours in his day so it should not be a surprise to me that he hasn’t accumulated knowledge on this particular corner of the stock market. (In reality maybe it is good to hear that he doesn’t know this area because once everybody knows the story it is highly likely that the share price will be more efficiently priced).

What I did not get around to telling Guy was the history of my purchases of holdings in two companies in the sector, Linear Technology and Analog Devices (ADI). I didn’t have time to tell him about how ADI had bought Linear Technology and how well the ADI share price had performed. (As I write this piece ADI has hit a new high).

Neither did I get around to telling him that I don’t think accounting earnings is currently the right valuation tool for ADI because I believe free cash flow rather than earnings is better. I say this because in 2018 there was an amortisation charge of $570m that will continue for years to come, and which is related to the purchase of Linear Technology. For some reason the accountants have been able to say that when ADI bought Linear, they paid $4bn for an intangible asset called “customer relationships”. The accountants call this a “definite life” asset that should be written off over time just like they depreciate the value of a machine over time. In all the years I have been looking at Linear I have not seen any evidence that their “customer relationships” deteriorate over time. I would argue that their real-life customer relationships have at least stayed as strong for the twenty years I have been looking at them. I therefore believe that accounting earnings are understated by that $570m. I think the $4bn should have been added to that “indefinite life” asset called Goodwill and subjected to an annual test to see if ADI had done something to undermine those customer relationships. I think an annual impairment test in 2018 would have discovered that no impairment had taken place.

This is just another example of a much bigger discussion that centres on the subject of intangible assets. I know Warren Buffett has highlighted this as an important issue and he has touched on it in his most recent annual letter. It is a topic that will not go away but all I’m going to say here is that ADI looks more expensive than it really is because of the way the accountants have chosen to deal with it. I would therefore encourage Guy to get to know ADI because due to the cyclical nature of the business he might get an opportunity to buy it at a cheaper level.

In conclusion I would like to say thanks to Guy for a most enjoyable chat.
I now have my copy of "The Education of a Value Investor" signed by the author so it will get a prominent position in my library. All I need now is for him to get Warren to sign my copy of "The Snowball"!