What we like our CEOs to say

We have read thousands of annual reports of the years. Some good, some bad, some terrific. One of the businesses that we own (which, for compliance reasons, will remain nameless) published an annual letter that contained a few phrases that we love to see.

The phrases are below and are all tied around the importance taking care of the business owner (the shareholder).

- <u>Financial Objective</u>: **To maximize intrinsic value per share**, defined as (a) the unlevered free cash flow per share that, in our best judgment, will occur between now and the long-term future, appropriately discounted to reflect our cost of capital, minus (b) net debt per share.
- **We manage our business for long-term results**, and our quarterly financial results, especially our GAAP results, will often fluctuate, which may lead to volatility in our share price. (As a result) our revenues and operating results often vary significantly from quarter to quarter due to a number of factors, and as a result comparing our financial results on a period-to-period basis may not be meaningful.
- We believe investments such as these, as well as our other key initiatives, will collectively enable us to scale and **strengthen our competitive position and enhance long-term shareholder value**.

Now we all know that actions speak louder than words. The words above are about as shareholder friendly as you can find in an annual report.

So what actions has this business taken to demonstrate it's shareholder friendly actions?

Last year the business announced that they were "no longer provide detailed annual guidance for our revenue, GAAP, and non-GAAP earnings per share." The focus is the long term success of the business.

Warren Buffett, one of our favorite investors, said this regarding "guidance" in his 2000 annual letter to shareholders:

> *I think it is both deceptive and dangerous for CEOs to predict growth rates for their companies. They are, of course, frequently egged on to do so by both analysts and their own investor relations departments. They should resist, however, because too often these predictions lead to trouble."*
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> *"Over the years, Charlie [Munger, longtime vice chairman of Buffett's Berkshire Hathaway Inc.] and I have observed many instances in which CEOs engaged in uneconomic operating maneuvers so that they could meet earnings targets they had announced. Worse still, after exhausting all that operating acrobatics would do, they sometimes played a wide variety of accounting games to `make the numbers.'*
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> *"These accounting shenanigans have a way of snowballing: Once a company*

moves earnings from one period to another, operating shortfalls that occur thereafter require it to engage in further accounting maneuvers that must be even more `heroic.' These can turn fudging into fraud."

We will continue to search for those businesses that have the type of management that we would like to do business with.

Successful investing.