[Start at 00:20]

Narrator: It's a pleasure to introduce our next instructor, based in New York. Avram Fisher is the portfolio manager and founder of Long Cast Advisers. Previously, he worked for 12 years in institutional equity research in private equity at CSFB and BMO Capital Markets, covering the technology consumer goods, business services, and industrial goods and services sectors.

Avi began investing in the mid-1990s, working as a reporter by day and researching stocks at night, applying the same reporter's due diligence to his interests in investing. This led to a career transition from the newsroom to investment banking with the idea that he would eventually help manage wealth. Long Cast is the culmination of that vision. Now, Avi, on behalf of the NY Global Membership community, a very warm welcome to you. The floor is yours. Please go ahead.

Avi Fisher: John, thank you for having me. It's really an honor and a privilege to get to talk to the MOI community. I'm going to talk today about Intelsys. The ticker is INS. It's an under the radar, rapidly growing, tech company with a very interesting background, and I think a very interesting future as well. It's one of the few companies in our portfolio that reached the $100-million market cap threshold, and I think it's a very exciting idea.

[Slide 2] Here's our disclaimer.

[Slide 3] Someone told me that these presentations can be a bit dry and suggested I put in a cute photo, so I've included a special interactive feature called "tickle my nephew". He'll actually laugh in real time, if you do.

[Slide 4] Long Cast Advisers is a small / micro / nano cap focused investment manager. We run a concentrated portfolio of with the idea of holding our investments for a long periods as they grow hopefully to large companies.

Right now, about 10 companies make up 80 percent of our portfolio, and cash is around 20 percent. The average market cap is $90 million, but that's skewed by one large company that we started buying when it was a $14-million-mark cap. It's now a $450-million market cap.

The median is probably more accurate. Our median market cap in that 10 companies in our portfolio is $30 million. It's skewed very small.

Long Cast Advisers is run from separately managed accounts. I charge one percent of AUM per year, or for accredit investors, a 10 percent performance fee.

I decided to structure Long Cast to separately manage accounts, because I've always taken an incremental approach to just about everything. I want to be thoughtful in how I start my business, and build a foundation for it. At some point, I hope to grow the AUM and convert it to a partnership when that makes sense, but right now I'm focused on returns, not asset gathering.

[Slide 6] John, as you mentioned in my intro, I have a background as a writer and reporter, as a private investigator, and institutional equity research. It all informs a slightly different approach to assessing companies than I think what's taught in business school. I very much focus on the nonfinancial due diligence. This means looking at the company, at the management, at their histories, interviewing people and doing some deep background research and due diligence on the management team.

One thing that was obvious from the time I was working as a private investigator was that people tend to repeat their patterns of behavior.

Having spent more than 10-years as an institutional equity analyst, I've also covered a lot of different areas, so I have a lot of reps and a lot of experience analyzing and assessing companies through traditional fundamental analysis.

How I do it [Slide 7]. My research process in a nutshell. I'm a big fan of small and focused companies. I think small and focused wins the day.

At the low end of the market cap spectrum, there's a lot of obviously bad companies that are easy to weed out. I worry most about the less obvious bad companies; that's where investors tend to get into the most trouble. I try to avoid that, as I said before, by talking to people; by interviewing people, former employees and colleagues, and thinking about the possibilities.

SEC filings, financial filings, that's all available to everyone. Anyone can plug that into a model. Anyone can forecast growth rates. I don't spend a lot of time on my future forecast. I spend a lot of time trying to learn what I can by asking what don't I already know?

Again, the research process, it's a convergence of a lot of different things, and a recognition that companies aren't just financial spreadsheets that are run by people, and products aren't just things. They have to solve what is a problem for their customers.

I try to get a sense of how important that problem is and what customers can pay for it. On the decision-making process, ours, everyone who's involved in MOI who's an investor, this is a decision-making business, and decisions I have found are very hard and very personal, because we all think through things quite differently.

I pay very little attention, as much as possible, to what the stock market tries to tell me about a business, and that's especially true when the markets are up 500, down 600 points. I think once you look at a stock's price as a guide to its valuation, you've already lost the game.

I look for the ingredients. I think through what something can be worth in success mode over time, and whether or not it has the ingredients to get there. The business ingredients. Does it have a solution for the customers for the price they want to pay? Does it have access to its raw material? Does it have good working capital management? Can it exist even if sales don't come through as expected? I look at the management ingredients; the executive team. I look at the valuation ingredients.

I think the key thing is I look for reasonable multiples against reasonable outcomes. I'm not trying to time the market. I would love to bottom tick all my investments, but I'm not deep value in the pure way that they teach it at say Columbia Business School. I think inexpensive is elastic. Multiples will vary over time. The key is, I'm looking for companies that are going to return multiples and not go to zero, and then wait for that to happen. If I'm right on the front end where I buy something, if it's a difference of 20 or 30 percent shouldn't matter.

Finally, I look for the portfolio management ingredients. I'll say that the ingredients aren't complicated, and I've learned that

having a checklist helps, but portfolio management is very complicated. I've grown fond of saying that, "Equity research is Newtonian, but portfolio management is like quantum physics." I just start with a small position and build from there. What I've learned is, just as hard as it is to buy things on the way down, sometimes you have to be comfortable buying them as well on the way up.

Finally, the last line was about the ingredients. This [Slide 9] is about waiting. Patience is incredibly undervalued in the investing world. It's not aligned with incentives where trading commissions make up compensation. It's not aligned with our emotional content, but I think it's the only way to make money as an investor. I try to be patient with my investments; researching on the front end, holding with the expectation for three to five years. I let my winners ride. I tend not to use leverage and hold cash instead.

I'm patient in building my business as well. Long Cast Advisers has a solid foundation for a durable investment management firm deep into the future. I keep my costs low. I'm managing separately managed accounts. My wife is supporting us while this business grows, and I'm trying to be thoughtful selecting clients as thoughtful as they are selecting me.

Then I'm patient with the companies we own, to a point. When I have expectations for executives to do something and if they're too slow in doing it, I will engage or persuade or cajole. I will fight for my clients' capital. I push for corporate stewardship when it's available to unlock value. I'm not looking for immediate returns. I'm just looking for them to pay attention to all the agents, their employees, their own long-term values so that me and my clients can grow as well.

Finally [Slide 10], here's how the business is done. I've included the few years from before I started Long Cast Advisers when I was working as a sell-side analyst at BMO Capital to after I was laid off, when I started to meet some really wonderful people who from the get-go encouraged me to start my own fund. I kept saying, "I need some experience first, and then I'll start my fund." I worked at a hedge fund very briefly, and realized the only way for me to do this was to start my own firm, which is a hard decision to make, but I encourage anyone who loves investing to go ahead and do it.

We've been fortunate since Long Cast Advisers started. Through December 24th, we've returned 16 percent CAGR, up versus the

three most prominent benchmarks. I look at those benchmarks simply as guide posts to what the market's doing. I'm not aiming returns towards it. My portfolio is managed apart from it, but everyone looks at those. You should see it as a reference point.

[Slide 11 & 12] Let's get to the cerebral part of this presentation and talk about Intelligent Systems. The ticker is INS, as I mentioned. It's a $100-million-market cap company. It has many, many traits I find incredibly attractive about a business or investment that I aim to own for many years. It is unique and unusual, and I'll walk you through this momentarily. It has a long operating history available to analyze. It has a long history of capital efficiency. The CEO owns 25 percent of the company. There are two outside investors—Weitz & Co, which owns 26 percent, and two investors who together own nearly 20 percent. That implies you have 70 percent of the stock locked up, long-term. These people have been owners for I think more than a decade.

It is pretty complicated to understand what INS does, but once you understand, it's rather simple. The business is tangible. It solves many identifiable problem for customers.

The biggest thing for investors is that it's converting into a platform business with potential for material compounding, and that's what's most exciting.

On valuation, it's trading at five times sales. I don't think that's very cheap. I don't think it's too expensive, but as we get to the valuation in more depth later, you'll see that none of this makes sense unless you think this can grow materially over the next three to five years, as I think it can. At least. I think the ingredients are there.

[Slide 13] Here's just a very quick summary P&L for the last four years. What I want to point out here or two or three things. First, '15 to '16, revenues nearly doubled, and then '17 to '18, we're up 50 percent just through 9 months of the year. They're gonna nearly double again this year. This is the first year that this business is generating significant cash; however, as I'll get to later, this business has been standalone just for a few years. They have been funding their operations only until recently. In 2015, they sold one of their profitable businesses to invest in their current business. They've been burning cash through those investments.

Now that they're generating cash again, they've recently announced a $5-million-dollar buyback. The thinking is, it's better return than leaving the money in a bank.

What is this company? [Slide 14] This company has been around for decades. It started as a partnership in the 1970s. It's been publicly traded since 1981. It has a very long history. It was an MLP briefly until 1991. The same CEO has been running it over the duration.

This company, long history, has always had a lot of operating businesses. It's what we would call today a holdco. Because it's a holdco and because it has lots of unconsolidated minority investments, the P&L historically is largely irrelevant. You really have to look at the acquisitions and dispositions and gains on sales over time. It shows some success. Nothing has blown the cover off the ball, but it's had success over the years.

Since 2003, they've grown book value per share at 18 percent CAGR; mostly on the sale of ChemFree, which I'll discuss shortly.

By early 2000s, they had about five operating businesses; by 2008, they narrowed it down to two. [Slide 15] They had ChemFree, which was an environmentally safe parts washer. Very easy to understand business. It's profitable, it was growing, it was cash flow positive.

Then they had Core Card, which was a card issuer processing software, which was absorbing all the profits. It wasn't growing. In 2012, shareholder letter—you could look at 2011 and 2013 and 2014 as well—they were generating cash from ChemFree and redirecting it to pay for CoreCard software, and the investors hated it. They really, really hated. They just wanted the company to shut down CoreCard and focus on ChemFree.

Investors hated it even more when in 2015 the CEO sold ChemFree to focus solely on this totally unprofitable CoreCard business. It's one of the reasons why I think the CEO is quite spectacular. He's been here a long time. He owns a lot, and he's okay with making very unpopular decisions, because he has a very long-term time horizon for what he thinks are gonna be incredible investments in the future. So today, an investment in Intelisys is solely an investment in the CoreCard operating business.

[Slide 16] What's CoreCard? Again, I'm gonna roll back the history a little bit. Back in the holdco days, INS owned a 50 percent stake in PaySys, which was a card issuer processing software, and they developed PaySys Vision Plus software.

In 2001, PaySys was sold to First Data. I think, if I remember, Intelsys invested about a $1 million into PaySys and they sold it to First Data for $17 million. That's a nice return. Again, it doesn't really show up on the P&L; the sale will show up on the cash flow statement.

Concurrent with the sale, PaySys spun off this little stub called Delos Payment Systems. INS owned a small percentage of it, lent it money. It defaulted on the debt. INS became the majority owner of Delos. They renamed it CoreCard, and since then, INS has owned it and self-funded $40 million of investments into CoreCard over the last 15 years.

The reason I think this is important are two-fold. One, PaySys Vision Plus software is a leading global market share in the card issuer processing software business. It was developed by the same folks at Intelsys. It's the backbone of First Data's global financial solutions segment, which generates over a billion dollars of revenues and over 500 million in EBITDA. I'm not saying CoreCard's gonna get there, but they're not new to this market, and they really understand the market and how to build software.

In talking with the CEO, Leland Strange, not long ago, I just shared that quote above. They know what goes into this business. They know how difficult it is, and they know that it provides a barrier to entry for having a really good software.

What is CoreCard today? [Slide 17] CoreCard is a card issuer processing software. It's a software that connects an account to bank and to a transaction. It's used for credit cards, debit cards, prepaid cards, gas cards, gift cards, HSA cards, you name it. As the CEO says, "If it's something that can be monetized, you can just make a card around it." The biggest competitors are First Data, Total Systems, and Fiserv. They're big oligopolies that process the transactions for their customers. Intelsys has historically been a licensor of the software for care issuer processing. They would build the software. They would customize the software and generate revenues on the customization of the software.

They would then sell the license, generate high-margin revenues on the sale of the license, and about 10 to 15 percent of the license would recur annually as maintenance and support costs. They don't disclose who their clients are, because their clients hold themselves out as processors. They might be running Intelsys' software. They've had a small business, a handful of large clients, but obviously, a very small company with the license revenues generated per active account.

Over the last few years, again, getting back to the summary P&L where we showed growth from '15 to '16, they started to deemphasize the licensing and say, "Hey, we're gonna focus on processing." As well, they've been able to go after larger customers. They can now go after larger customers and now they can add processing, and instead of doing the one-time license sale, they can talk over the full service as a processor as an outsource providers. This is really where the future growth is expected to come from. In 2017, the company publicly said that, "We're gonna deemphasize licensing. We're gonna promote our processing platform."

Then, a large customer—the scuttlebutt is it's the Goldman Sachs Marcus business. They ordered a license that has been going through the customization process. They've been delivering licenses so far with the final license delivery in 2019. That's supposedly the source of the recent growth.

Obviously though, the license sale is nonrecurring, which is a bit of an issue. I just broke out here [Slide 18], even when you back out the largest annual customer, you're seeing growth of the core business. They're doing about 20 million in revenues this year, but we estimate about 10 to 12 excluding this large customer that's doing the license.

So, now we get to the less cerebral part and more, "What is this actually worth?" [Slide 19 & 20] From the bull perspective, the way I think about this is, they want to build a world-class processing company. They've been doing this for a long time. They've been investing in it for a long time. They spent almost nothing on sales and marketing, but are growing quite materially. What's the likelihood that this can achieve, from $20 million in revenues and grow over time in 3 to 5 years to $100 million in revenues? If so, this stock is gonna triple, I believe, if not more. If it's not gonna go to 100 million in revenue, I don't think it's worth the time to invest it, so not to bother at all.

Again, what are the ingredients where this can grow five-fold? They're addressing an enormous market. This is, I've heard a $100-billion-dollar market. Do they have the pedigree and experience? First Data's segment, which runs on essentially what was their software once, is doing over 1 billion in revenue, and 500 million in EBITDA. These guys are small and focused. They've been self-funding. The sale of ChemFree to me is sign of burning the boats. And now they're finally generating cash flow.

Even if you back out the large annual customer, they're profitable, and cash flow profitable. The current multiple, like I said earlier, it's 5X, 5 times $20 million revenues which compares to some of the companies in the tier group, but if you back out say the current large customer, they're doing closer to 12 million revenues. Put a 5 times multiple on this goes down to $8 in the near term, and it could obviously go cheaper still.

The question though is, can this get to $100 million sales? I think the ingredients, like I said, are there for that.

I don't bother putting an Excel spreadsheet that shows forecast and growth. It's just a sense of reasonableness of whether it can get there or not. The CEO says, "Don't look at us on a quarter to quarter basis. That's totally irrelevant. We're looking at this over the years." They said—and I really encourage investors who are interested to read the conference calls—they're quite unusual relative to most earnings calls. He says, "Once this license is signed, we believe we have the processing revenues behind it and processing customers behind it to make up the difference."

The big question I have is, "Why now?" [Slide 21]. Card issuer processing software has been around forever.

I think because of a decline in processing costs, you're seeing alternatives to the traditional oligopolies. I think you're also seeing processing costs have come down, which is a boom for a lot of fintech.

Then, they say, they're quick, they're agile, they can get customers up and running, but one of the other things is that they say they're only ones that will offer processing today to get a customer up and running, and then convert to a license in the future. They don't want to do this, and they don't push this, but it's something they're willing to do to customers to keep the customer over time.

It would be important to discuss the risks. [Slide 22] There are always more ways to go wrong than there are to go right, but what I think the most reasonable things that are likely to go wrong are listed here. The credit cycle could change. Their customers are in some way, shape, or form, lending to consumers. Seventy percent of their revenues right now come from five customers. Again, I think it's a sticky platform. Those customers have been around for a while, but that's an obvious risk. There's a revenue cliff coming with the sale of this license. They say they have the processing customers behind it, but if not, obviously that's gonna be an issue if competitors start to offer the processing and licensing.

These are just a few of the risks that I've come to think about here. It would be silly to think everything's fine, because ours' is a future business. One thing I can say for sure is that nobody knows the future.

I think that's it. I have a few additional resources. There's a link here to a video from a processing convention where they interview one of the managers. It just talks about what they do. It provides a little bit more context.

Then, they have the conference call transcripts. They used to have conference calls only twice a year. Now they have them four times a year. A typical conference call, the CEO talks for 20 minutes just from bullets. Then, they open it to questions. Sam from Queens asks questions. I meantion this to reinforce that this is incredibly under the radar with an opportunity to really grow over time. Include the financials here.

John, I think that's it for me. If you have any questions, let me know.

Narrator: Well, Avi, thank you so much for the presentation. Maybe I'll just start a little bit on the competitive side, or on the customer side. Do we know who those large customers are?

Avi Fisher: As I mentioned in the presentation, the scuttlebutt on the big customer is that it's the Marcus segment for Goldman Sachs, which just launched in the U.K. in the fall. As far as the larger existing and organic customers, there was something I had seen on Glassdoor where an employee had posted how exciting it is to work with certain name brand customers. This is from 2016. There was a short list, which I unfortunately don't have in front of me,

but if anyone wants to email me and ask, I'm happy to share the link with them. That listed four large consumer lending companies; one in Germany, and three in the U.S. that has large customers. I apologize, John. I don't have that written in front of me.

Narrator: Sure. On the competitive front, so as the company grows, who are they taking share away from? Is it the likes of First Data or other companies?

Avi Fisher: Yeah. They are the people they come to, and they would be taking share from would be First Data, Total Systems, Fiserv, those types of companies. They can nibble at market share without moving the needle for any of those large competitors.

Something I think is worth mentioning here, Intelsys is based in Atlanta, and as I mentioned, it started as this holdco. They also have this incubator business in Atlanta. A lot of tech companies that have come out of Atlanta, including PaySys and First Data, have roots somehow with Intelsys.

One of the more current contemporary companies that have roots with it is Kabbage, which is a small business lending company. There are I think a private think tech darling. Intelsys had a small minority investment in Kabbage. I think they invested under $90,000. They sold their investment for over a million dollars a quarter or two ago. Kabbage remains a customer of theirs. When you think about some of the fintech companies that are sprouting, Kabbage is one, and they're using CoreCard as a processor. CoreCard, as I mentioned earlier, holds very close to the vest who their customers are, because their customers hold themselves out for doing what CoreCard is actually doing for them. They really keep that very close to the vest.

Narrator: Just to get back to the management team a little bit, it's nice to see continuity and alignment of incentives there. Are they growing the senior management ranks or expanding the executive team, or even the employee base to facilitate this growth?

Avi Fisher: Yeah, John. That's a great question. I'll talk broadly about the employee base. The corporate base, it's not jumping off those charts growing. I think they've had 20 to 25 people in our corporate offices in Atlanta for several years, but they've been growing their employee base. They have employees in Romania and in India. In fact, they're Indian employee base as their own Facebook page. It's very active. You see a lot of activity on

LinkedIn and Glassdoor, generally with positive reviews, by the way. It looks like it's broadly speaking a jumping off group for a lot of young Indian engineers who end up coming to the United States and working elsewhere.

That said, your question in terms of the growth, they've grown their employee base from about 250 in 2014 to now they have about 400 employees in India, and that's where their real capital constraints are. When you go back to their 2Q18 conference call—in fact, the 2Q18 press release as well, they mention, "We're not taking on any more customers for the rest of this year, because all of our capacity is utilized on one big license, and then a processing customer that's coming right behind it." They're really capacity constrained with their employees, which of course is a double-edged sword.

In talking with the CEO—and I've talked with him extensively—he's been talking about rolling out a 40-hour training system for his employees, because they have a lot of new employees coming on board, and he wants to make sure they understand not just their role in what they do, but he wants them to understand the entire company. I think he wants reduce churn and increase the longevity of these employees. He wants them to feel invested in the business. He wants them to understand everything that's going on. He mentioned, as an example, he has people in the accounting office going on sales calls. He has people on sales calls spending time with the engineers, just so everyone can participate in understanding what happens. I think that speaks to a desire to build something substantial, a focus on the long-term, not on the quarter-to-quarter, and really an interest in building something sustainable.

Narrator: Do you think there's a case here for the larger players to acquire the company?

Avi Fisher: You know, John, that is my biggest fear, that they're going to sell too soon. That happens with small companies. I mean, in the few years since I've started Long Cast, about four companies acquired. Grateful for two of them; really unhappy about the other two. It's one of my fears here that someone will come along and buy it, but there's no indication that I've heard from this executive team that they have any interest in selling this company. I think they really want to grow it. I think they think they can get it to over $100 million in revenues in the next three to five years and maybe then maybe think about selling it.

They have made no indications that they're selling. They're buying back shares right now. They are long-term focused, and the CEO, I've said over and over, says he wants to build a world-class processing.

They've taken a very incremental approach with this. He said one of the reasons they don't spend on marketing right now is, "We don't wanna grow too big for what we're capable of doing. We wanna deliver a good experience for each customer we have before we can take the next step to the next level." They're taking the next step to the next level right now. I think they would agree it's too soon to sell.

Narrator: Terrific. Well, Avi, I'll leave it there. Thank you so much for sharing this differentiated idea with our members, and I would just encourage those listening to feel free to follow up with you directly with their own thoughts or questions. Of course, we're happy to facilitate an introduction as well.

Avi Fisher: For sure. They can find my contact information on my website, www.longcastadvisers.com. I love talking to other investors, those who are interested. I obviously love talking about the things I own. Thanks so much for your time, John. It's been a real pleasure.

Narrator: Thank you very much. Goodbye for now.

[End of Audio]