



## Mastermind Roundtable with Braden & Simon from The Canadian Investor Podcast

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### Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have a different little bit of a different show our co host, Andrew is not with us today. He actually just got he had a bachelor party this weekend. No, he wasn't too drunk to join us today. He's actually driving across the country. He's somewhere between Albuquerque and Dallas right now as we speak.

But I have Braden Denis and Simone Belanger from The Canadian Investor podcast, which is my favorite show, other than mine, and they are here to talk to us about we're going to do a little mastermind. So we're going to talk about some different companies, and the boys who were kind enough to fill in today to help me offset Andrew not being here. So this should be a fun show is something we've not really done before. And Andrew, we do miss you. So we wish you were here, but we'll try to carry on as best we can. So I guess with that, I will turn it over to Simon. And we can start talking about his company, and then we can kind of enjoy our chat.

### Simon

0:54

Yeah, thanks for having us, Dave. And, you know, I, we have some big shoes to fill. But we'll do our best here. So yeah, the company I want to talk about is ASML. So for those who are not familiar with ASML, I'm going to start and say it's probably I would argue it's the most important company that most people have never heard of. It's not a small company either. So it's right around 250 billion in market cap when US dollars, most of the figures I'll be mentioning, it's actually gonna be in euros because it is based in to Dutch company.

So it's based in the Netherlands. ASML is a semiconductor company. It's a very different company that some of the listeners might be familiar with, like an Intel, AMD and video or Taiwan Semiconductor, which I'll refer to as TSMC, just to keep it shorter. And ASML is one of the handful of companies in the world that manufacture semiconductor lithography systems. So the process of lithography is quite complex, I'll try to simplify it as much as I can, because I do not have a PhD in this.

So I'll give an overview so people can wrap their heads around it. And by all means, Andrew, if you have questions during just let me know. So to keep it simple, it's a system that uses light to make microscopic patterns on silicon wafers. So this is one of the crucial parts in the process of making semiconductors. The smaller these patterns are, the more powerful and power efficient the semiconductors will be. So where ASML is unique is that it's the only company in the world that produces extreme ultraviolet systems. So that's short for EUV. So they also produce deep ultraviolet systems, also known as DUV, which are less advanced. So there are other companies that produce the UV system, like Nikon, for example, I believe Canon also produces them. I think that's right, right, Braden?

**Braden**

2:50

Yeah, there's a few other players in the lithography space, especially in the DUV space, but extreme ultraviolet lithography, the EUV machines, we have a bit of a natural monopoly from ASML. I've just been lurking in the background here. Dave, again, thanks for having us. And it's funny, I'm on the other side of this and I'm like, like I'm nodding along because I think this is just such a brilliant company. ASML is and I every time I look at it, and I'm like, why don't I own shares again, but I digress. Yes. Keep going.

**Simon**

3:25

Yeah, and EUV systems are able to print essentially much smaller patterns on those silicon wafers compared to the UV system. So EUV systems, they cost around 200 million USD, and will most likely increase in recent years as ASML comes up with newer versions of those EUV systems. And it has incredible pricing power, because Braden just mentioned that they have a monopoly on this UV technology. And it's unlikely to change anytime soon, because it takes incredible amounts of capital to build that technology, decades, honestly, to be able to get it to production.

And it also took some key investment from companies like Intel, TSMC and Samsung's in the early 2000s. I know China and I will touch on the Chinese factor a bit later on. But China is also investing, you know, in their

own capabilities. But whether they are actually able to achieve that or not. That's another debate because even if a country or company is able to replicate the technology, finding the people who know how to develop the technology is something that's extremely difficult and ASML as most of the talent to be honest, even if there's some of the talent poach, they probably wouldn't have enough to be able to replicate that.

And in 2022, about half of the sales of ASML were related to uv system and the rest was split between the UV installation and maintenance services for their systems. So to show how strong the demand is at the end of 2020 today how had 14 point 4 billion euro in backlog sales in both EUV and d V system grew in the low double digits last year and was actually a slight not a down year because they obviously had a pretty good year, but they had some higher expenses.

So it wasn't as good as previous years. And it was still quite, quite impressive year for ASML. And they are expecting sales to grow around 25%. This year, when a lot of companies in the semiconductor space are actually issuing really weak guidance, you know, Intel comes to mind. But there are other companies because semiconductors are typically cyclical, just because demand kind of comes and go. I personally think it will become less and less cyclical in the coming years just because there's more and more things in our lives that incorporate chips, whether, you know, the hot topic is AI. So AI is more and more powerful. We're seeing it with Chad GPT.

But, you know, it requires tremendous amount of computing power and ASML, you know, has a key role to play in that. And that's because the clients to even if it's cyclical for clients, they still have to make sure they have the technology in place, when the downturn kind of stop, and there's a more of a higher demand for semiconductors because if they don't they will fall behind. Before I continue, Dave, any questions?

**Dave**

6:24

Yeah, a couple of questions that kind of springs to mind. So number one, so they are a company that produces machines that allow the foundries like TSMC and others to produce the chips, correct?

**Simon**

6:38

Yeah, that's correct. Okay. And so their main clients would be like a TSMC, Samsung, Intel, and also China as a country does also order systems for Asus ASML. But they're only the V system that are shipped to China because of mostly us restrictions and pressure on on the Dutch for that.

**Dave**

7:00

Yeah. Yeah, that makes sense. So how does how does a company like Texas Instruments interact with them? Do they have any exposure to this company as well?

**Simon**

7:08

I'm not sure. So that's a good question. I don't believe so. They may have a company with, like textbooks and current instruments would probably not need the most advanced technology, just because it's analog semiconductors. But they're not in their top clients. That's for sure. So that's I'm not sure that's the answer.

**Dave**

7:29

All right. That's, that's totally fine.

**Braden**

7:31

So the company is morally around like question of, if they're like an integrated which Texas is versus pure play designer. So yeah, their customers are the founders. The one thing that I wanted to kind of also contextualize for the listeners on this company. I know this is not my pitch. But hopefully this is this is valuable. They are shipping about 40 of them a year in terms of quantity of these machines.

They recognize 40 UV shipments in the year of 2022 42, the year before 3126. And they were just doing one a year in 2015. So as this technology kind of became the forefront of foundry technology, the EU V machine is less than a decade in terms of being widely used. Each one costs about \$150 million, and is 100 over 100,000 individual parts. So they're a complete bottleneck in terms of the supply chain in and out like it is like in terms of the competitive landscape.

The relationships they have to have with Tier 123 suppliers to get 100,000 parts. It's like constructing a Boeing 747 In terms of like the scale required here. So hopefully, that's some useful context. I'm gonna just how massive an undertaking one Evie machine being manufactured is.

**Simon**

9:00

Yeah, and just to there's actually I'm not sure where did you get that data for the UV systems? Because when I was looking at their most recent operating statement, they were saying they had 345 Total lithography system. I know it includes the UV as well, but I couldn't find that

**Braden**

9:14

that's installed base. That's an installed base in December 2022 year end, they recognize the sale of 40 UV units. Okay. Total lithography units recognized is 345. If you include the d v. That may be the number you're looking

**Simon**

9:33

at, you know, that's what I was saying. So it was including both, right? Yes. I'm looking at at sold units for the year. Yeah, yeah.

**Braden**

9:40

345 Because there was 305 d v units recognized.

**Simon**

9:46

Okay. All right. So thanks for the clarification here. So, to continue here, speaking of I touched on China a little bit and there's obviously Taiwan and China. There are some risk associated for ASML here So we've seen increased sanctions by the US government targeting technology exports to China's like I mentioned. So there is a risk because 15% of their sales do go to China. And even though they have monopoly on UV, they still get a good portion of the revenue from the UV systems as well. Because for that, it's more of a, you know, it's not a monopoly, I would say it's a oligopoly, there's several players, but not a lot I there's less than a handful.

And that 15% does not include, like I said, their most advanced UV system. And recent restrictions by the US government didn't did not impact ASML is business since it targeted the most advantageous systems, and

ASML was already not shipping them to China. So it didn't impact it could have an impact in the future, the US has been pretty aggressive along with their allies to putting some pressure sanctions on China for the export of knowledge when it comes to semiconductors. So we, you know, we don't know what may happen. The other thing, obviously, is a military conflict between China and Taiwan could have a material impact on ASML is business since their largest customer would be in peril, they would lose most of that 15%, I would argue that goes towards China for the D V system. And it could also impact about 50% of their business that goes to Taiwan primarily to Taiwan Semiconductor.

So you could see an impact of like two thirds of their revenues here, potentially, I'm not saying that it wouldn't necessarily happen, but it is a risk. But on the flip side, the US and Western nations are pouring money into onshoring semiconductor capabilities. So the fact that they sell these systems, you could see definitely a shift if there is a military conflict between Taiwan and China, and most likely the US, obviously, as well would be involved in that, while you could see the shift of their client base kind of going off towards the US and those onshoring. And we've seen those TSMC, and Intel, making some massive investments toward opening some foundries in the US recently. Any questions on that?

**Braden**

12:09

I have a question on how you're thinking. And I think this is what kind of has kept me out of the name, because I've never had a lot of certainty about projecting the next two, three years. So these numbers that I'm pulling up, you know, we track their KPIs on stratosphere.io, and their net bookings, has ballooned to 30 point 6 billion. And that's kind of like a forward looking metric of revenue to be earned in the future, like their backlog of bookings. And this has ballooned three acts since 2020.

So there was a huge surge of demand in 2021, and 22, as these foundries are basically in a fight to get you V machines on their premise, which is a great position for ASML to be in and kind of speaks to the the moat that they have. But when you normalize it out back to around, you know, 11 billion in net bookings, and 2020, all the way through 17. I'm wondering where this kind of plays out in the next five years of what normal years look like. And if you do normalize it out, the stock looks super expensive. And if they can maintain it, it looks super cheap. And so I think that that's really important. And I'm curious about how you're thinking about that?

**Simon**

13:19

Yeah, I think it's really hard to project right now. Because we've seen, yeah, there's been an imbalance in demand towards that. I do think in the future, we're probably gonna see maybe a bit of stabilization, but increases as well, because it's not just a US that's looking to onshoring. Even in Canada, there has been talks about the Canadian government to trying to get some semiconductor capabilities Europe as well. So you have this increased demand coming from other places. And I think countries are just realizing how much of the risk for national security not having that capacity is I really think you're going to see more and more demand and country pouring some resources into that, just like the US did with their chips act that they pass in August of 2022. Last year, it's a small drop in the bucket to be clear, just because it provided 52 billion in funding for semiconductor research and development.

But it just goes to show that it's probably one of the few things that the US Republican and Democrats can actually agree on, like, you know, making sure that the US is independent when it comes to semiconductors and the China question, right. So, you know, I'll follow us politics a little bit. But you know, this is one of the few topics from the outside as a Canadian that seems to get us lawmakers kind of agree on and I get the sense that it's pretty similar for most Western nations. So I just think these things also take time like Braden said, there are 1000s of parts that go into these systems. They also do do UVs. So I think you're really going to see pretty good demand, at least for the next five years, if not the next decade or until there is a technology that disrupts them. So that's kind of my take on that.

Yeah. So I'll just finish here with just a couple of numbers for people to wrap their heads around. So the last thing about ASML is it's a free cash flow generating machine, with its free cash flow per share pretty much going up steadily over the past five years last year was slightly down, because of supply chain constraints and higher costs. But I don't expect this to last too long since they have pricing power, and they are most likely going to be rolling out some newer versions of their UV system, that will obviously be costing more money in the future. And they returned over 7 billion euros to shareholders in the form of dividends and buybacks last year.

And in terms of valuation, Brayden did touch on that, it's not that it's hard to value, it's just, it's not necessarily going to be a straight line up in terms of revenues, and profitability, there is going to be a little bit of a cyclic, not as much as some of the actual companies that either produce semiconductors or design them. But typically, you'll see a trading in the 30s in terms of p up to 40s.

And then for free cash flow, you'll see it in the high 20s to 30s. So from my perspective, you know, if the P starting to look into low 30s, and price to earnings around mid, and price, a free cash flow around mid 20s, it may start being a pretty interesting play, but it's never, if you're a truly just a value investor, you can just

forget about this business, it's probably not gonna happen. It's never gonna get to like 10 or 15 P, for example. That's just a reality unless to the sentiment really turns bearish on, you know, ASML for one reason or another. And if that happens, there might be some bigger problems.

**Dave**

16:49

Yeah, that's awesome.

**Braden**

16:51

I looked at this name. And I think it's funny. It's the bull case. And the bear case is both geopolitical in the fact that you touched on this, there's a large need from Western countries, and, most importantly, the US to have foundry capacity. And so ASML is a big part of that. And then the on the downside is that there's just so much uncertainty with TSMC. And so it's kind of bullish and bearish, depending on how you look at it with the geopolitical concerns. At the end of the day.

This is technology that we cannot live without in 2023. It is. So so important. You touched on it's maybe the most important company that no one knows about people in the investment community will know about it at 250 billion USD in market cap. But if you walk down the street, do you know what ASML does? I have a hard time believing anyone will say yes, outside of outside of these circles. So it is an incredibly important company. I think the risks are there. The valuation is obviously very stretched, but you're not going to see this company trading at basement bargain level deals. It is a natural monopoly on arguably the most important technology in the world.

**Simon**

18:15

Yeah, exactly. And just to add into what Braden had said, for the amount of systems shipped, so Yeah, that's correct what he mentioned. And it's also the revenues actually slightly exceed the revenues like 51% come from every system, because they're obviously charging way more per system compared to the DUP, and obviously, compared to some of the maintenance and installation that they do, which represent a decent but not huge chunk of their revenues about like 20% a bit less all of those combined. Yeah,

**Dave**

18:45



that's awesome. It's a beast of a company that is for sure. All right, well, thank you, I guess I will take my stab at talking about my company. I'm not going to be as great as Cmon was, but I'll do my best. So here we go. I'm going to talk about Texas Instruments. So this is we just

### **Braden**

19:00

all got together and decided semiconductors.

### **Dave**

19:06

I thought I would talk about an air quote, more boring company. So I thought I would talk about Texas Instruments. Most of us are probably familiar with Texas Instruments from those god awful calculators we all had in high school that we all hated, and nobody uses anymore. But the funny thing is, is that's only about 1% of their revenue. So it's a very, very small portion of what they actually do. They have a huge, huge impact on our economy and everything that goes on in, you know, and what we build and what we use, similar to ASML, but in a different way.

So the company has an integral role in the economy, they design integrated circuits, microchips and other semiconductor chips. So Texas Instruments has been around for a while they first founded in 1930 and 1951. They became Texas Instruments, and they really kind of blossomed into what they are now in 2011 when they bought National Semiconductor which really helped them pivot to becoming an analog semiconductor company 2004. Rich Templeton that name is going to come up a few times. He is the outgoing CEO. And he's really the man really responsible for taking the company 2004 to where they are today. And he really started the shift from being more of a leading edge semiconductor company to analog companies.

So Texas Instruments for people that aren't familiar with the history of the company a little bit. They were the forerunner of AMD, Intel and PSM C. So Morris Chang who founded TSMC, actually worked at Texas Instruments for over 30 some years. And he was passed over many, many times to be as CEO. And so the Tywin government reached out to him and asked him to help them start their own foundry there, which he did. And now is obviously you know, one of the more important if not the most important company in the world, AMD and Intel, were also very leading in semiconductors in if you are really interested in this, read the book, Chip wars, fascinating book. Fantastic. I know Simone read it and loved it. I have about halfway through it right now. And it is utterly fascinating. So audio book, but I feel

Yeah, I'm reading it. But, you know, Texas Instruments really the granddaddy of the semi world, and they've really kind of helped evolve what the industry is become. So Texas Instruments kind of what Braden was alluding to earlier, they're a vertically integrated company, which means that the design sell and manufacture analog chips, and they also make embedded processors. Now their primary industries are focusing on automotive, industrial, and personal electronic industries, which are super exciting stuff, very sexy. Texas Instruments portfolio consists of about 80,000 projects, products, which are integral to their end users needs.

So kind of cool thing about the analog chips. So we're talking about ASML, and how they're really cutting edge. And they really push push the envelope on the design of chips and making them smaller and more powerful. And Texas Instruments kind of the exact opposite of that, when they make a chip, the thing lasts for anywhere from seven to 10 years before it needs to be replaced.

And so they have a much longer shelf life. And so those 80,000 products that they make, there isn't the same pressure that ASML or TSMC, or AMD would have, for example, to sell the latest chips, because they know when they make these products, they're going to sit on their shelves for a while and it doesn't said, okay, they know that because they know that there's going to be need for it, and it gives them a huge huge advantage. So analog chips kind of differ from digital and that they can vary. They can handle varying voltage loads. So analog chips are used to convert and amplify signals, enable interfaces manage and deliver power, noise cancellation help process data and approve signal resolution. So a lot of times these analog chips will actually be in front of the cutting edge, and semiconductor chips to help all these processes so that those chips can actually function. So the modern processors that are created by Nvidia and AMD, they may have more sex appeal.

But without Texas Instruments chips, the electronic devices that we take for granted wouldn't function. Most of their circuits cost 40 cents. So it's not exactly big bucks here, but not 150 million like ASML those machines, and are widely used in their strewn over circuit boards. You can see them for airbags, X rays and TVs. So Texas Instruments operate in three segments. They come in the analog semiconductors, embedded processing, and other I will make a shameless plug here. [stratosphere.io](https://stratosphere.io) is the absolute best place to find information about this company. If you're looking for financial information, which I will refer to here, you gotta go there, this is the place to find it. Braden and team have I didn't

**Braden**

23:54

even pay Dave to say anything. This is incredible.

## Dave

23:58

It's amazing stuff. I mean, I'm looking at one of the charts right now it's all laid out, super easy to organize a look at and you can get a really good sense of everything that's going on with the business. So of the three segments really two are really the driver. So analog semi counts for 77% of their sales was 17% coming from the embedded processes and the balance of the other. So they have 100,000 customers, they more than 40% of the revenue comes from clients outside the top 100.

So they don't have the same concentration risks that ASML has, for example, because they have so many products and so many different customers. They aren't really exposed to that thing. And I guess another thing that I'll kind of throw out there too, is geographically, only 10% of their sales comes from inside the United States. The balance of it comes from outside of the United States.

One potential risk is about 60% comes from China. So there is there is some China risk just like Simone was talking about with ASML maybe not to the same degree because they're producing chips that are unlikely to be banished or forbidden for breeding China to use them like some of the more advanced stuff, because this is more switches and things of that nature. So excess permits also ships 1000s of unique skews to each tier one supplier, even though it's somewhat consolidated auto market, which is broken down into five sub sectors. So Texas Instruments I'm going to mention this a couple times, they have these this cool capital investor day.

So typically they do their their quarterly reports. And then after that about a week after that they do a capital investor report. And they have different information that they share in there that they don't necessarily always share in the earnings calls. And so some of that they will break out the different markets, their suppliers, so you can kind of get a sense of how concentrated or how not concentrated, their suppliers are. So you can get an idea of kind of the moat that they've built for the company and how they can defend that moat because they have one other applied, oh, gosh, I'm gonna blank in the name of the company shoot Applied Materials, Applied Materials, thank you, this is their main competitor.

And so that's the company that they kind of focus on trying to beat. So Texas SR is both stems from the many sources they have primary and may affect manufacturing and distribution plus switching costs. So their entire business strategy is based on offering low cost versatile and long lasting semiconductors remaining useful for decades, before needing replacement by more advanced chips, which is what I was

talking about earlier. Alright, so the fact that the chips will last a long time is important because it saves Texas Instruments money on r&d, and new production facilities.

Texas Instruments offers evergreen chips, which may be used in a variety of applications, to contrast to Intel whose chips are produced two years ago and is already out of date. Don't get me started on Intel.

### **Braden**

26:51

You the mental bandwidth.

### **Dave**

26:53

Yeah, unfortunately, it's a company I own and I don't know why. So due to Texas Instruments size and ownership of its factories, the company is able to produce its goods cheaper than its competitors, and is greater control over the supply chain to serve customers. Now that all weaves into touch here real quick on their fabs. So Texas Instruments constructed the first 300 millimeter wafer fab for analog fabrication, enhancing its low cost manufacturing process.

Texas was concentrates on increasing this output over the last decade, and they're putting more and more money into this as the company is actually ramping up their capex. And they're doing this because they're trying to accelerate their capacity. So they have more ability to produce all this stuff. So the cool thing is they have this cool chart in that investor capital day, this shows how much of this is dropping the cost of these chips. So from the 200 millimeter wafer that they have been using to the 300 milliliter it drops at eight cents a chip, which may sound like yeah, okay, whatever. But when you're producing hundreds of millions of these things, that's big bucks in savings. And that all translates to free cash flow.

Now, this is the kind of the big kahuna, if you will, when you talk about Texas Instruments, they're all about free cash flow. And I'm going to take a moment here and look at their their latest 10k. So their latest 10k. In there, they have a section on their strategy, their strategy is to maximize free cash flow per share. And they have three elements that they're trying to focus on.

The first one is their business model, which focuses on analog and embedded chips. And that gives them a lot of competitive advantages. The second one is they're trying to be very disciplined about their allocation of capital come to that here in a few minutes. They also talk about their strategy of efficiency. And that goes

back to producing more of these 300 millimeter wafers, which allows them to reduce the costs so that they can pass that savings on to us as shareholders. One of the things that you'll find when you ever you look at anything you're reading about Texas Instruments that comes from the company, it's all about free cash flow, free cash flow per share, free cash flow, free cash flow, free cash flow, they start every earnings call and end every earnings call talking about the importance of free cash flow to the company as well as to us as the shareholders.

So it's obviously very, very focused on free cash flow. They have this huge section in their annual report that has a big section on free cash flow per share and how they calculate it as well as why it's so important to them. And it all kind of goes back to the free cash flow. So the free cash flow for the company. If I look at my friend at Brandon's website, we can see some cool charts here that I will throw some numbers at you. So first of all, the free cash flow per share has grown to \$6.47.

Their free cash flow margin is 30%. They've seen 11% annual growth for the last 18 years in their free cash flow per share. And that translates To the company being able to pay huge dividends, they've grown the dividend. Now it's at \$4.96 a year. And they've increased the dividend 19 consecutive years, including an 8% increase in q4 of 2022. And so that's a 21% CAGR over the last five years. They also have reduced their share count by 47%. Since 2004,

## **Braden**

30:25

that's what I was waiting for David. Yeah, that's when when do we talk about how they have deleted the share account? Yeah,

## **Dave**

30:31

they have years. Yeah, they've almost cut it in half in 18 years. So think about that. So they're growing the free cash flow. So that's on an upturn. And it's not just the per share number, it's also the actual gross amount is increasing. And then you compound that with the fact that they've reduced the share count by almost half, which helps them almost double the free cash flow that they're able to generate for investors. And the majority of that goes back to the dividend which they're growing and share buybacks. And they're also able to, this also translates to them reinvesting I talked about the capex earlier, they're going to grow, their free cash flow is going to see a bit of a hit over the next few years, because they're increasing the capex to build out more capacity.

So they have the ability to produce more of these wafers to produce more chips, which is going to reduce the cost of the company, that all translates to the fact that they have, they have net debt of about \$6 billion right now, which means that they have more cash on the balance sheet than they do debt. When you talk about strong balance sheets, Texas Instruments has to be like the top, maybe maybe not Berkshire, but right up there as like one of the top examples of a company that has a granite solid balance sheet that you really want to emulate and look for if you're trying to study balance sheets, because it is ridiculous. And the only debt that they do have on their books is all company debt, they don't have any commercial paper, they have no outstanding loans, so and the interest rate that they have on the debt right now is a ridiculously low 2.53%. So they can more than cover their interest payments on whatever debt they had. So this is a massively massively strong company that's been around for a really long time. And they've been able to reinvent themselves. And you know, who knows, maybe Intel can someday but the Texas Instruments really shows that you can really pivot and change.

Yeah, I'm not real happy about the company. But this is a company that Andrew and I both own, and we're very, very bullish on the company. And unlike ASML, it does actually trade cheaper. The the P E ratio right now is around hovering around 18% around 18. And it has gotten down lower than that. So for a company that does such amazing things and has huge ROIC, ROIC, their return on invested capital is around 45%, their returns on equity are in the 60% range.

And so those are massive, massive numbers, it just shows that the company is able to reinvest their capital, at a very high rate leads to more growth for the business. Now, the sales growth is not sexy. It's like the company's projecting around 7% Over the next five years, which isn't super exciting. But considering how efficient they are, and what great margins they have, and what turns on capital, that is more than enough to to make this company worth worth whatever penny you pay for it.

**Simon**

33:22

So is it 7% per year over total over them? Yeah, 77% year. Okay, that's that's actually pretty for Mitch company as mature as them that's actually nothing to sneeze at and love the free cash flow per share metric that really shows that they're not trying to do any shenanigans or anything like that, because, you know, net or net income, you know, you can play some little accounting tricks.

**Dave**

33:50

Oh, yeah, for sure. So, it's a strong, strong company. And the more that I learned more than I like, I guess, a couple of the risks that I guess are a little concerning, you know, they are cyclical, too. They are to a certain extent, but I think kind of like what you're talking about with ASML, I think we're going to start to see less and less of that, as the increased importance of chips becomes more and more prevalent in our society. The fact that they're analog, I think will, I think that will actually continue to be a benefit to them, because they don't have the same pressures that somebody like Nvidia has, where they have to have the most cutting edge things, because of the long lasting nature of what they design and what they build.

There's going to be supply and demand for them for a very long time. The China risk is something that concerns me a little bit. And the other thing that's concerning is the rich Templeton who really has guided the ship for so long and done such an amazing job as weaving and the the gentleman who's stepping into his shoes I don't know that much about and so that I mean that's, you know, that can be a little disconcerting, but I guess we'll see what happens with that over time. I'm willing to give it a you know, the benefit of the doubt. I think the culture is strong enough that you know, even if he is you know, not great I think they can withstand it for at least a little while.

## **Braden**

35:01

Dave, when you google calm pounder, online, Texas Instruments come up, you know, first it has all the characteristics of just like the perfect compound or bro stock, they grow consistently double digits, they buy back a lot of stock, the margins are wildly impressive. And no one in Silicon Valley coming out of Stanford's excited to disrupt analog chips. You know and it's unsexy.

This is what makes it sexy. You look at a 10 year compound annual growth rate on a total return percentage if you include the dividends and you you get a 19% return for shareholders on last 10 years. Management team you know talk dirty to me word is telling me you are growing the business in free cash flow per share. It is you know exactly kind of what you want to hear rich Templeton, you know, is this as close to Founder CEO you can get. So I think that it's worthy to call out you know, some maybe keyman risk. But the business is so mature at this point that I don't think it's too big of a concern. Yeah, not much for me to add.

They're really a it's one there that I look just at the how it screens and I'm like, this is the most beautiful company ever. Everything's clean, easy to understand. And know it's a wonderful business. Yep, I agree. I will round us out. I wanted to go with a smaller name here because you guys got a couple 100 billion in market cap names. And you know, it's one that not many people will have looked at in the past. Full disclosure, I am a shareholder. I have been for many years now. It's been a wonderful performer and yeah, so the business

I'm talking about today is called Bombardier a recreational products aka BRP it is listed as ticker D O on the NASDAQ or on the Toronto Stock Exchange as just D O so add an extra Oh, if you're in the US you can buy it on the exchange there. They design develop and manufacture snowmobiles, ATVs and personal watercraft. Under brands that many people are very familiar with SkiDoo see do and can M. Those are the three flagship there are other brands in there as well on the boat side. And then as well as links which are like racing ATVs it is only 7 billion in market cap today. So you know, when we're talking about size for context, you guys talking about hundreds of billions dollars in market cap, widely discovered widely analyzed, you know, many investment bank covering the name, this one will not have that level of coverage.

And maybe that is opportunity. I'm going to discuss four main thesis points on the business, keep it concise. The first is you have to talk about the brand name, and I never like purely owning a company based on the moat of brand. But brand is a moat and it has certainly a moat in personal recreational vehicles. And they have become so popular they are now synonymous with the specific outdoor activities, especially in those SkiDoo and SeaDoo brands. It's really just unbelievable how synonymous they have become with the activity. Number two is the market share. And long term growth metrics are wildly impressive for stock trading at 12 times earnings, they have gone from owning about 20% of the North American power sports market share to almost 35% in just the last six years alone.

And so they have made massive share gains and it speaks to, you know, point number one, which is they have the brand name and the distribution which was halted heavily in 2020. But demand was hot. speaking strictly for anecdotally here. You couldn't get one, two years out. That's how long people are waiting for their new snowmobiles and nice new CPUs, because, you know, God forbid you order another brand it wasn't going to happen.

They are right now delivering their best results ever and what people are calling a weak economy. consumer discretionary spending should be pressured and they are delivering their strongest top line sales in history by a lot, not just a little bit by a lot. And so they've only reported their third quarter of of their fiscal and so we're gonna get there later numbers this month, but they're guiding for really strong results. And I'll talk on that again in the risks. It is a Cash Generation Machine.

They are growing the dividend and They are buying back stock like no other. If you screen for companies that are buying back a lot of stock BRP will be at the top of many of your screens because they have deleted the share count cutting it basically in half since just 2013. And so strong cash generation rewarding shareholders, and they're like, you know, what, if we can deliver 20% earnings per share growth, while the market, you know, gives us a consumer cyclical type multiple, we'll keep buying back the shares. And so



shareholders have done exceptionally well from not alone. And number four, my last thesis point is really around valuation and why I think the bear case is wrong. My thesis is that I think the consensus bear case is wrong. It is a quote unquote consumer discretionary going into a recession, keeps the stock attractively valued at trades at 12 times trailing earnings less than that on a forward multiple, and they're guiding for around 20% earnings growth this year, with their numbers coming out later in March, and 27%. On the top line, not many stocks you can buy with those growth rates, this margin of safety, my thesis is that this demand stays incredibly hot.

This is not a recession for people buying CDs, you know, that's, you know, call it a silly anecdotal thesis, but it has worked out exceptionally, this is not a recession for consumer discretionary spending. For those that are buying toys at their beach house and lake house. Just look up the gap and of equality in North America. And it is widening and widening. I do not believe this company, it should be trading at the multiples that it has traded at historically.

And I will be continued to be a great shareholder, just looking at numbers here. And mentioned 7 billion in market cap on a per share metric, they've grown the top line at over 20% earnings at over 30%. The dividend grows at double digits at a super super low payout ratio. gross margins are pretty low. I mean, this is equipment at 25%. But still generating lots of cash when it all flows through strong balance sheet buying back lots of stock. And I think you can pay a pretty attractive price here.

That was I wasn't sure what do you guys got? What I'm all yours on? What you think could go wrong with this idea? Or or she like it?

**Simon**

42:38

Yeah, my concern. I mean, it's always been a concern for me. And so far I've been wrong. So we'll see whether I'm right or wrong. But yeah, like I know, it's, you know, not the same segment of the population. But what I've been noticing over the past few months, because I'm into biking, mountain biking is that a lot of the higher end bikes bikes that you're talking like 6789 \$10,000, that were going like hotcakes during the pandemic, I'm starting to see excess inventory and discounts.

And that was something just as recently as late last year, something I, you know, you would not see whatsoever, like, if anything, they were overcharging people, because they knew that they could get away with it. So that's definitely something that would make me a little cautious. And also the higher interest rates because I was kind of browsing a few different recreation sites, and all of them have, you know, apply for

financing as well. So I assumed that, you know, financing rates are significantly higher than they were last year. So those were the two concerns that I would have personally. Yeah,

## **Braden**

43:49

those are great points, especially on like interest rates. I think that that's fair. It's not like buying it. One thing I'll say is, it's not like buying a car, like you can buy a spark CD, which is like their most popular product for around 7000 MSRP. And so they're not like, you know, most people are just straight up buying these things in cash.

Now, I do think with a name like this, you know, anything really less than 10 billion in market cap, you can do exceptionally well with a nuanced approach and some and having a unique perspective from the market. And that's why I think that it's so attractively valued, if I call any manufacturer any distributor in North America, and I kid you not i This is the type of research I like to do. I have called 50 Plus in North America, and you cannot buy next year's model yet.

They're still only taking and now we are they've already ramped up their production and they're still at that level of of demand and backlog. So sure, it can certainly soften and I know out, there was lots of pulled forward and recreational space. You talked about it with bikes, it's definitely happening here as well. I think that it's hot enough to push through any sort of recessionary period that may exist, I could definitely be wrong. I've been right so far. But this is one that I'm trying to own for a long, long time anyway. So if there is weakness in the next three to five years, I'll likely still be a shareholder. Regardless,

## **Dave**

45:29

I guess one of the things that kind of springs to mind when you're talking about that, what a good proxy to, if you feel like that it's more of a higher end clientele, that is purchasing these maybe a decent way to track any softness, we'll be looking at companies like American Express and LVMH.

And seeing if they're seeing softness of any of their purchasing or any of their their revenues, activities, any of that nature, because even though they may not be using American Express cards to necessarily buy them, they're probably a lot of the same people that has an Amex card versus the people that are buying them. And so that may give you some indication of hey, there's, they're starting to see some softness in American Express. And even though, you know, they may be that far out in orders, it could indicate that maybe farther

down the road that they could have some issues with looking at that company, I'm very familiar with both those names, living in Minnesota for 20 years plan to 10,000 lakes and 70,000 feet of snow, they're kind of popular. So it's I actually didn't know until a few years ago that it was a publicly traded company. So that's kind of interesting.

**Braden**

46:33

Yeah, you bring up a really good comp kind of on the luxury market there with with LVMH, and maybe even transaction volumes on on Amex. What I think has happened is, anecdotally, it feels like it's consensus that the high end luxury market is recession proof in 2023. I think that is widely accepted view, because we're talking about a segment of the market that doesn't feel recessions, you know what I mean, and

**Dave**

47:02

it sounds, they didn't see it during the pandemic.

**Braden**

47:04

Exactly. And it seems sad to point that out. But it is a reality that the extreme luxury market does not feel the same recession that 99% of people do. And I have a similar ly nuanced view with some of these consumer discretionary names, you know, quote, unquote, heading into recession.

And so that's again, that's my view, it's a name that I had and known for a really long time. Now, I've maintained that view for a long time, luckily, to do quite well on the stock. And I think that it's more true now today than than ever. So that's why I bring it up, as one

**Dave**

47:39

of the things that I think people should take away from the discussion that we had today is, you know, Simone was talking about how he, you know, he had a different view, and he had been wrong. So far, there are so many different pitches that we can all take. And we don't have to swing at every single pitch. And just because, you know, my company appeals to me and vice versa, doesn't mean that we have to swing it every single pitch. And that to me, I think it was what makes stock market so interesting is because we can all have different views on different things, we can agree on a lot of different things.

But I think when we're looking at these kinds of ideas, something may appeal to somebody and some not to others, and some may fit sit in our wheelhouse and some don't get argue that Texas Instruments is a little bit outside my wheelhouse, but it's something I'm trying to learn.

**Simon**

48:23

Yeah. And even ASML was a learning curve for me and I do own it sci fi thing. I forgot to mention that. So full disclosure there. But I think one last thing I wanted to mention if people notice, look, there's risks to every single company. There's no such thing as a company without risk, no matter how blue chip it is, how long it's been in business, how well it's done, whether it's a dividend, aristocrat or king. There's no such thing as a risk free company. So I think that's really important to keep in mind to

**Braden**

48:53

tell that to the General Electric shareholders 50 years ago, right? I mean, it's so true. And you have to be aware, if you're giving a pitch like this, and you're like, there's no way I'm wrong, you definitely are wrong, like you definitely are that typically the good thesis, investment thesis, you recognize where all the places you could be wrong, because that means you understand it. And there's some assumptions that you're making and fully well that you know that you could be wrong.

And another good point that you brought up as you can't borrow any three of ours conviction, Simone's built up conviction in ASML. Over what now us doing the podcast like two, three years now before you even entered the name. You and Andrew have owned Texas Instruments for quite some time and understand the business and have built in your own conviction. You cannot borrow someone else's conviction. Because what happens when a drawdown comes and you've borrowed that conviction instead of building it yourself? What do you do straight to the exit and that might not be the optimal decision?

**Dave**

49:59

Yep. Those are all fantastic points. So this has been an awesome conversation. I've really enjoyed it. Where Can anybody find more about what you guys are doing?

**Simon**

50:09

Okay, all right braid ends, like signaling me i. So I'll go ahead and say it. So we're the Canadian investor podcast. So you can just search us on your favorite podcast player, whether it's apple, Spotify or any other there, you'll find us.

We also have a network which has a real estate podcast for anyone interested in investing in real estate. So that's the Canadian real estate investor. We're on Twitter at CDN underscore investing. I'm at Fiat underscore iceberg. And Braden is Brito. It's brutal capital all in one right at braid o capital at Bridgewater capital. That's it. So I think that kind of sums it up where people can find

**Dave**

50:49

awesome. Okay, Brandon, you got to mention the website.

**Braden**

50:52

Sure thing. And you can find stratosphere Dido, I am one of the co founders and current CEO of stratosphere.io. It is a free financial data terminal. So, for beginner investors who might be listening to the show, you're looking for a place to get financial data to do research on stocks, there is no better place like don't waste any more time on Yahoo Finance with two years and three, four quarters of data, you're shooting yourself in the foot, when there is a free research terminal called stratosphere data, you can get 10 years of data looks nice. It doesn't feel like it was made in the 90s. Because it wasn't,

**Dave**

51:31

it wasn't. And the other nice thing about is the UI is super fast and clean and efficient. Whereas if you go to Yahoo Finance, which I did the other day, it can take you five minutes to load the page. So there's there's some time savings as well. So, guys, thank you very much for joining us today. It was awesome.

Really, really enjoyed the conversation. Check out their podcast if you have not already. I seriously this is the one I listen to every time it comes up. On Mondays and Thursdays. It's the first one I listened to. They've been with me on long long trips, as well as long long trips on the treadmill as well. So it's a fantastic show. And you guys will learn a ton I know I have, and they're also very entertaining. And also check out Brandon's

website stratosphere.io It is fantastic. I'm not just saying it, because he's my friend. I really love it. I literally use it every day. So it's fantastic.

So with that, I'm gonna go ahead and sign us off you guys go out there and invest with a margin of safety, emphasis on the safety. Have a great week, and we'll talk to you all next week.

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