



# Matthew Peterson

Managing Partner, Peterson Capital Management



# Peterson Investment Fund I, LP

# Peterson Capital Management, LLC

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**Matthew Peterson, CFA**

[Matthew.Peterson@petersonfunds.com](mailto:Matthew.Peterson@petersonfunds.com)



# AGENDA

1. **Daily Journal Corporation Overview**
2. Sum of the Parts Evaluation
3. Journal Technologies
4. Scuttlebutt Evaluation
5. Summary



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# The Daily Journal Corporation (NYSE: DJCO)

## An American Publishing and Technology Company

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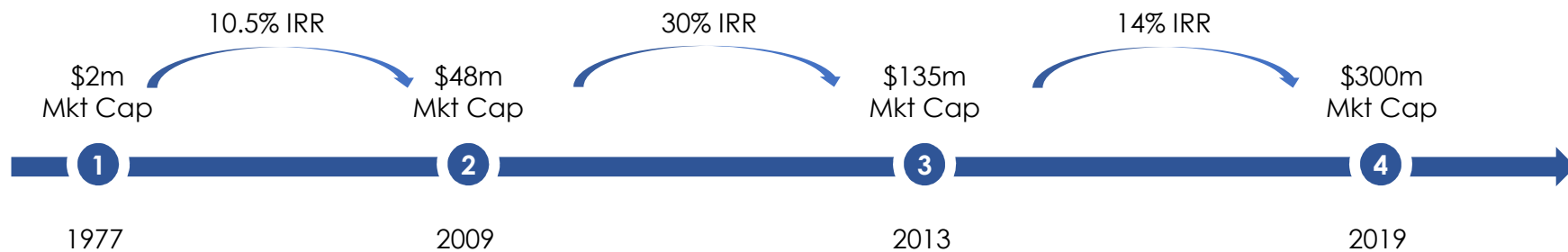
- Misunderstood/Hidden Business Model (zero analysts and no IR)
- Off Financial Statement Value (deferred revenue, accelerated costs)
- Undervalued (Graham and Fisher) Microcap Compounder in Huge Space
- Extraordinarily High Quality Board and Management Team





## TIMELINE OF PROMINENT EVENTS

- 1 1977: Munger and Guerin buy Daily Journal for \$2 million USD
- 2 2009: Munger and Guerin invest cash flow from foreclosure notices into an equity portfolio
- 3 2012/13: Purchase New Dawn and ISD with a \$30m margin loan from equity portfolio
- 4 2019: Becoming an important Software as a Service (SAAS) provider in a large niche space



## Core Components of the Daily Journal Corporation

1



### Newspaper Business

- Legal newspapers (10 publications)
- Public notification services subsidiary

2



### Investment Portfolio

- Long-Term equity holdings
- Cash
- Real estate (corporate offices)

3



### Technology Business

- Case management system for courts and government agencies (SAAS)
  - Sustain (1999)
  - New Dawn (2012)
  - ISD (2013)

“ This software business, if it works, will spread over the whole country and we ”  
have a lot of business now spread over the whole country - Munger 2017

## Commentary

## Valuation

### Newspaper (\$0)

- Operating 10 legal papers originating in 1888
- Newspaper business is in a steady decline
- Countercyclical earnings spikes resulting from public notices

**\$0** (value certainly above zero)

### Investment Portfolio (\$141m)

- Portfolio designed by board members Munger and Guerin (superinvestors Buffett identified in 1984)
- In 2018 Buffett and Munger allocated substantial new Berkshire Hathaway capital into financial sector dominating DJCO portfolio
- Portfolio provides capital and size to bid on state wide technology solutions
- Non callable minimal debt with low interest rates
- Deferred tax liability may never be paid and is a form of float (long term zero interest loan from gov)
- RE long term fixed with assets held at cost

#### Hard Assets

- \$9m Cash
- \$188m Common stock portfolio: WFC (~75m), BAC (~56m), USB (~\$6.5m), PKX (~\$.5), Foreign possibly Hyundai (~\$9m) BYD (~\$41m)
- \$16m Real Estate

#### Offsetting liability

- \$30m Non maturing margin loan at 2.5%
- \$40m Deferred capital gains tax at 0%
- \$2m Mortgage at 4.66%

**\$141 Net Investment Assets** (\$213m - \$72m )

### Journal Technologies (TBD)

- Future of DJCO business
- Off financial statement value / hidden revenue
- Operating in a huge space with many fragmented competitors
- Significant moats
- Exceptional board of directors
- High margin SAAS business model with sticky revenues

- Financial Figures Are Inaccurate

- Costs inflated and Revenue deferred

- Path to \$150m in revenue exists over 10 years in a high 25% margin business

**Value TBD**

“ I only wish our prospects were as good as BYD's. And by the way, they might be... - Munger 2016 ”

## Journal Technologies has a deferred gratification ethos (and moat)

Four years or more required to complete an RFP process, implement and bill for any services.

### City of Austin Municipal Court Case Management System Implementation Extension



Amendment No. 2  
to  
Contract No. 5600 NC17000035  
for  
Municipal Court Case Management System  
between  
Journal Technologies, Inc. (Contractor)  
and the  
City of Austin

**Contacts detailing revenue can be found  
at the county and state levels by  
searching public tax budgeting  
documentation  
(won't be found on the income statement)**

- 1.0 The City hereby extends this contract. This extension option will be June 09, 2018 through June 08, 2019. This contract has not yet been implemented, therefore no addition of funds and Four (4) options still remain. No need for vendor's authorization.

Action	Action Amount	Total Contract Amount
Initial Term: 06/09/2017 – 06/08/2018	\$1,025,000.00	\$1,025,000.00
Amendment No. 1: Modify Section 0400 (Invoices shall contain unique invoice number)	\$0.00	\$1,025,000.00
Amendment No. 2: Extension 06/09/2018 – 06/08/2019	\$0.00	\$1,025,000.00

- 2.0 MBE/WBE goals do not apply to this contract.  
3.0 All other terms and conditions remain the same.

“ You can't look at our financial statements and make very good judgments about what's going to happen. - Munger 2017 ”

# Over 100 contacts have been uncovered, many with incomplete implementation deferring revenue

Contract	Links	Court/Agency	Nonrecurring Rev	Recurring Rev	2017	2018	2019	2020
1	<a href="http://dccouncil.gov">http://dccouncil.gov</a>	Washington DC			\$ 153,000	\$ 156,825	\$ 160,746	\$ 164,764
2	<a href="http://sccgov.ign">http://sccgov.ign</a>	Santa Clara County			\$ 211,519	\$ 222,095	\$ 233,200	\$ 244,860
3	<a href="https://solano.leg">https://solano.leg</a>	Solano County, CA			\$ 215,000	\$ 93,000	\$ 95,325	\$ 97,708
4	<a href="https://www.placer.ca.gov">https://www.placer.ca.gov</a>	Placer CA	\$ 220,000	\$ 95,000	\$ 220,000	\$ 95,000	\$ 97,375	\$ 99,809
5	<a href="http://opendocs.org">http://opendocs.org</a>	Cook County	\$ 543,100.00	\$ 329,250.00	\$ 329,250	\$ 337,481	\$ 345,918	\$ 354,566
6	<a href="http://apps.fortworth.gov">http://apps.fortworth.gov</a>	Fort Worth		\$ 337,179	\$ 345,608	\$ 354,249	\$ 363,105	\$ 372,183
7		Orange County	\$ 550,000.00	\$ 300,000.00	\$ 850,000	\$ 307,500	\$ 315,188	\$ 323,067
8	<a href="https://www.alpharetta.ga.gov">https://www.alpharetta.ga.gov</a>	Alpharetta, GA	20000	17500		\$ 20,000	\$ 17,500	\$ 17,938
9	<a href="https://www.dekalbcountyga.gov">https://www.dekalbcountyga.gov</a>	Dekalb County, Georgia		46500		\$ 46,500	\$ 47,663	\$ 48,854
10	<a href="https://www.caldwellidaho.gov">https://www.caldwellidaho.gov</a>	Caldwell, Idaho	64197			\$ 64,197	\$ 65,802	\$ 67,447
11	<a href="http://montgomerycountymd.gov">http://montgomerycountymd.gov</a>	Montgomery County	65682	113570		\$ 65,682	\$ 113,570	\$ 116,409
12	<a href="http://docplayer.com">http://docplayer.com</a>	Maricopa County Agencies		\$ 170,410		\$ 170,410.00	\$ 178,950.00	\$ 187,917.00
13	<a href="https://docs.legis.wisconsin.gov">https://docs.legis.wisconsin.gov</a>	Madison WI	\$ 200,000	\$ 102,000		\$ 200,000	\$ 89,000	\$ 89,000
14	<a href="https://dupagecounty.net">https://dupagecounty.net</a>	Dupage County	200000	\$ 109,540		\$ 200,000	\$ 109,540	\$ 112,279
15	<a href="https://static.spokane.gov">https://static.spokane.gov</a>	Spokane Municipal Court	\$ 290,000.00	\$ 123,000.00		\$ 290,000	\$ 126,075	\$ 129,227
16	<a href="http://www.ct.gov">http://www.ct.gov</a>	Conneticut	\$ 330,000	\$ 77,300		\$ 330,000	\$ 77,300	\$ 79,233
17	<a href="http://www.co.marion.or.us">http://www.co.marion.or.us</a>	Marion County	\$ 340,000.00	\$ 116,000.00		\$ 340,000	\$ 118,900	\$ 121,873
18		Austin Texas	\$1,025,000.00	\$ 280,000.00		\$ 500,000	\$ 280,000	\$ 287,000
19	<a href="http://www.courts.gov.au">http://www.courts.gov.au</a>	Australia				\$ 1,300,000.00	\$ 1,332,500.00	\$ 1,365,812.50
20		Humboldt Superior Court						
		Lake Superior Court						
		Madera Superior Court						
		Modoc Superior Court						
		Plumas Superior Court	\$5,000,000.00	\$2,745,000.00		\$ 4,100,000	\$ 1,700,000	\$ 1,742,500
		Sierra Superior Court						
		San Benito Superior Court						
	Trinity Superior Court							

“ We have a large number of installations going on. Most will take upwards of a year, some much longer. - Salzman 2018 ”

## Building a \$1 billion business (without the newspapers)

### Multi-channel revenue expansion

1. Annual 10-year contracted price increases
2. Additional licenses from existing clients
3. New License and implementation demand
4. Consulting and Public Services (e.g. ePay-it, eFile-it)

- Revenues will jump rapidly in coming years as implementations complete, large invoices are paid and new contracts begin
- Expect \$150m in annual revenue from the JTI subsidiary within 10 years and sustainable net margins likely above 25% (competition targets 35% margins)
- JTI with less than a 20x earnings multiple will exceed \$700 million compared with ~\$160 million market price today
- Net equity portfolio with conservative single digit growth to be worth over \$400 million (limits long term risk of any permanent loss)
- **Today's market cap of DJCO of \$300 million can deliver 2-3x returns over a decade, delivering IRR approaching ~15% annually. Growth can continue for decades**

“Every contract that's significant is a major jump. The business is so big they're whole states. I mean this is a huge business. - Munger 2017”

## Phil Fisher Scuttlebutt Analysis – The Qualitative Case

1	✓ <b>Large Market for Sizable Sales Increase</b>	• 3,000 largely untapped counties with underutilization of government focused software solutions.
2	✓ <b>Determination for New Product Development</b>	• Significant new product opportunities including district attorneys, adoption agencies, courts, and others.
3	✓ <b>Effective R&amp;D Effort</b>	• Difficult to determine yet management prioritizes coordinating teams with diverse skills, incentivizing productivity and communication. Each aid success of R&D efforts.
4	✓ <b>Above Average Sales Organization</b>	• Advertising, sales and distribution all valuable aspects. Sales teams consist of high quality people with low attrition.
5	✓ <b>Worthwhile Profit Margin</b>	• SAAS business models exhibits strong profit margin potential. Long term contracts maintain margins during downturns in business cycle.
6	✓ <b>Actively Maintaining or Improving Margins</b>	• Low cost focus while delivering high value to customers. Contracts include built in price increases.
7	✓ <b>Excellent Labor and Personnel Relations</b>	• Glassdoor.com shows complaints around micromanagement, flat organization, low pay, poor quality of facilities and no 401(k). These complaints are cause for concern. Management praises employees.
8	✓ <b>Outstanding Executive Relations</b>	• Executives and board members are of top quality. However, the board members are elderly and have been running the firm for decades without key executives for replacement.
9	✓ <b>Depth of Management</b>	• Top quality management exists today however many known board members lack technology experience. Future leaders are unknown.
10	✓ <b>Cost and Accounting Controls</b>	• Management focus on integrity and proper incentives including lack of earnings projections, no quarterly calls or an IR team all bode well for low costs and accuracy and honesty in accounting.
11	✓ <b>Peculiar Advantages Relative to Competition</b>	• Board of business titans. Incorporate sustainable moats and execute based on invariant strategies like integrity, differed gratification and win-win relationships.
12	✓ <b>Long-term vs Short Term Profit Outlook</b>	• Exceptionally long-term outlook
13	✓ <b>Aversion to Shareholder Dilution</b>	• Equity share count is fixed. Access to extraordinarily low cost dept through equity portfolio. Internal financing available through rapid growth in cash flows.
14	✓ <b>Frankness Regarding Negative Developments</b>	• Management speaks infrequently but with frankness regarding risks.
15	✓ <b>Management of Unquestionable Integrity</b>	• Ethos established over decades is built on a culture of integrity.

“ A company could well be an investment bonanza if it failed fully to qualify on a very few of them. – Phil Fisher 1996 ”

# Daily Journal

## Business Fundamentals

Business Fundamentals	
Market Cap	\$300m
Shares Outstanding	1,380,746 shares
Ave Daily Volume	1,100 Shares (~\$250k)
Net Investment Portfolio	\$140m
PV of JTI value	\$250m
Newspaper	\$0
Consulting	\$0
Public Services	\$0

Conservative sum of the parts reveals 30% upside today.

Internal qualitative incentives, moats and invariant strategies reveal hidden upside with long-term compounding that can outperform markets for a decade or longer.



# Q & A

