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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Price Dips Let Investors Buy Quality at a Discount

LAMAR VILLERE, CFA, is a Portfolio Manager and Partner at Villere & Co. He also heads the firm's trading operations and serves as assistant chief compliance officer. Earlier, he worked in private equity and hedge funds. He previously managed the $17 billion domestic equity portfolio of the Illinois Teachers' Retirement System. He also launched a private equity program for the $38 billion Tennessee Consolidated Retirement System. Mr. Villere received a B.A. degree in journalism and mass communication from Washington and Lee University, as well as an MBA from Vanderbilt University. He is a regular guest on CNBC.

SECTOR — GENERAL INVESTING

TWST: Could you tell me about the firm?

Mr. Villere: Villere & Co. was founded in 1911 by my great-grandfather. The current partners are myself, my uncle, Sandy Villere, and my cousin, Sandy Villere — they are father and son — and then our cousin, George Young.

Generally speaking, what we like to do is find companies that are growing. We look for high-quality companies with great management teams that are growing. But we try not to overpay. We're very careful about valuation. Generally speaking, that puts us with a little bit of a focus on the smaller and mid-cap companies, primarily U.S.-based, although from time to time, we find some dislocations that enable us to actually find larger companies which are still trading at a reasonable value. We're not afraid of large caps, it's just that usually the overlooked companies that we find tend to be on the smaller side.

TWST: I understand that the portfolios only have about two dozen stocks in them?

Mr. Villere: That's about right. We have our separate account business and then we also have two mutual funds. We have the Villere Balanced Fund which contains stocks and bonds. But to your point, typically, you have 20 to 24. So, yes, about two dozen stocks. And then we also have the Villere Equity Fund, which is just the stocks without any bonds. The Villere Equity Fund and the Villere Balanced Fund are usually pretty close in terms of the stocks held, but not necessarily identical.

TWST: And you typically hold stocks for about five years or longer?

Mr. Villere: That's right. We're a relatively low turnover manager. So, in addition to being concentrated, we're relatively low turnover, which has the additional effect of making us a little more tax efficient than our peers although that's not our primary driver. We like to think we spend a lot of time evaluating a company before we add it to the portfolio. Our ideal holding period is forever, and we have some companies that we've really held for much, much longer than five years. Generally speaking, at some point, either we think there's a better place to put our money or the company just becomes so fully valued that there's more attractive opportunities out there.

TWST: And to get familiar with the company, you visit management and maybe talk to customers and suppliers?

Mr. Villere: That's exactly right. In addition to meeting with management, the nice thing about being concentrated is the amount of money that we're putting into a company makes us have a meaningful size for the potential management teams whose stock we're going to purchase. So we talk to the management teams. But, of course, generally speaking management teams are very promotional and very fond of their stocks. So that's not really enough. So we'll talk to competitors, suppliers, customers, really anyone we can find who gives us a unique view into what the company's prospects are and where they stand in the landscape of their industries.

TWST: And did you want to mention one company that you find interesting now?

Mr. Villere: Sure. One company that we've followed for a while is **Caesars Entertainment** (NASDAQ:CZR). This is **Caesars** that you're now seeing a lot on TV, with some of the heavy advertising that they're putting out. Basically, **Caesars** is the top U.S. gaming business and it's got a very profitable casino operation. But really what they've been focusing on in the last six to 12 months is growing their sports and online gaming business. Their plan is to invest about $1 billion into the marketing for that and they expect it over the long term to generate $500 million to $1 billion a year of EBITDA, or earnings before interest, tax, depreciation and amortization. They think it's going to be a good investment.

The company has traded off. It was over $100 a share; now it's in the $50s. It's traded down significantly this year probably, we believe, for a couple of reasons. One, the heavy spending. I think investors are a little cautious that this is a very competitive landscape in the online gaming business. We tend to agree that it's going to be a tough sled and they may not have quite as much success as they'd like to have. In addition, you potentially have concerns that the U.S. consumer might weaken. Obviously, making the trip to Las Vegas to gamble is not quite as important as keeping the lights on. So maybe that's going to impact their profitability on their legacy assets.

We generally think it's still very attractive, that it's got a great management team that has time and time again done a good job of cutting costs and managing properties. Even if you kind of wipe out and say the $1 billion that they're investing in iGaming is throwing it out the window, it's still dramatically overcorrected from where the stock was. And you compare it to **DraftKings** (NASDAQ:DKNG), which is an online-only company in the sports gaming industry that's losing money, it's valued over $10 billion — you are essentially getting **Caesars'** very profitable casino assets for very little, for $2 billion or $3 billion, which we think is a real bargain.

Unless you take the mindset that they're just going to spend $1 billion a year forever with no returns on the online gaming industry, we think the legacy assets make it an attractive position to invest in at these levels.

TWST: And both with Caesars and some of their peer companies, they're also interested in getting people to show up at the resort casinos, maybe view entertainment or eat or go to a bar or shop? Is that part of their strategy, too?

Mr. Villere: Sure, that's part of the strategy and you can make some money with that. But the bulk of the profitability is getting them to sit down at the gambling table. So that's a lot of the draw. As a matter of fact, one of the things **Caesars** figured out over the pandemic was they were losing millions of dollars a year on their regional casinos' buffets. Finally, they shut those down for COVID reasons. When they reopened the casinos, what they found is people came regardless. All-you-can-eat buffet-type restaurants were hemorrhaging money, was really accruing to the players, but not at all to the casinos. Once they shut a lot of those down, they found those casinos to be far more profitable and actually had additional space for games and such.

They're doing a good job of figuring out which promotional marketing and benefit spends have a positive return on investment and which ones really are just sort of there to be nice guys and maybe don't necessarily need to be continued.

TWST: Did you want to mention a second company?

Mr. Villere: Sure, so on the larger side, we like **Freeport-McMoRan** (NYSE:FCX). **Freeport** is the top publicly traded copper miner in the world. It had traded off significantly a year or two ago due in large part to a significant amount of leverage. They had a lot of debt. They've been spending a lot of time taking care of that, shoring up their debt. They're now significantly more liquid, instead of focusing on their free cash flow and paying down the debt on the balance sheet. Now, they're paying dividends. They've got a $3 billion share buyback in place and they're really sending the money to the investor. We like that. It's not as aggressive of a growth play, but there is growth.

Copper is an interesting commodity. There's a massive power infrastructure spend taking place both in the U.S. and outside the U.S. in terms of upgrading the power grid. Additionally, the shift to electric vehicles will help. Electric vehicles use about four times as much copper as internal combustion vehicles. So the landscape for copper is very attractive. About 40% of their reserves are in the U.S. There are a lot of non-U.S. reserves, but we think those are generally speaking relatively safe. And we think copper is a good place to be and **Freeport** is on good footing. So that's a little bit more of a defensive-type stock, but one that we'd like in the portfolio.

TWST: And I understand that in China some of the efforts to limit COVID have lowered copper prices. Is that more of a temporary thing and will the market improve in a short time?

Mr. Villere: Sure. A lot of their sales are in China and with the effective shutdown in China due to COVID that will certainly impact demand in the near-term for copper. But we think over the long term, it's a great place to be. It's not like oil and gas, where it's relatively quick and relatively inexpensive to throw up an oil well on a piece of farmland. Developing a copper mine is a very, very expensive, very, very long lead time project. Once demand picks back up and growth continues, there's very little risk of other entrants coming into the market. It's a relatively insulated, potentially more lucrative long-term play.

TWST: And did you want to mention a final company?

Mr. Villere: Sure. I mentioned before that we are certainly willing to own companies for a very, very long time. One company that we've owned for over 20 years is **Pool Corporation** (NASDAQ:POOL). **Pool** is actually based near here. We're in New Orleans. **Pool** is based on the North

Highlights

Lamar Villere discusses his firm's investment philosophy and examines three companies he feels are currently at attractive valuations. Mr. Villere says he looks for high-quality, growing companies with great management teams to include in a concentrated, low-turnover portfolio. He says that top U.S. gaming business Caesars Entertainment, which is trading down significantly this year, is an attractive buy. He believes that the market overcorrected, due in part to concerns about the company's planned expansion into online gaming. He also likes copper miner Freeport-McMoRan, which he says has reduced its debt and is now paying dividends and buying back shares. He points out that as commodity owners they are somewhat hedged against inflation. Mr. Villere also recommends Pool Corporation, a distributor of swimming pool-related products. He believes that Pool is mistakenly viewed as a consumer discretionary stock, when it is more of a consumer staple when you consider that pools require ongoing maintenance.

Companies discussed: Caesars Entertainment (NASDAQ:CZR); DraftKings (NASDAQ:DKNG); Freeport-McMoRan (NYSE:FCX); Pool Corporation (NASDAQ:POOL); Meta Platforms (NASDAQ:FB); Amazon.com (NASDAQ:AMZN); Netflix (NASDAQ:NFLX) and Alphabet (NASDAQ:GOOG).

Shore of Lake Pontchartrain, so about an hour from here. Pool is a distributor of swimming pool-related products. They've got a very dominant market share. It's a great business. Ninety percent of their revenues are in the U.S. So, much shielded from what's going on outside the U.S.

I think one thing that people tend to confuse is they're considered a consumer discretionary stock, understandably because you think a swimming pool is not necessarily something you have to have. But once the pool goes in, you do have to maintain it with chemicals, with new pumps and so forth. Eighty percent of their revenues are based on maintenance and refurbishment. Once you have the pool, it kind of becomes a consumer staple and so it's a little more defensive than I think people give it credit for.

They've got great revenue growth, which they have seemingly forever. They've grown revenues about 20%. They've got great margins, very high. They're currently at about a 44% return on invested capital. It's a really profitable great business.

building — trying to throw in pools. But there's certainly a general movement to spruce up your house and make sure you have a nice place to go if the rest of the world is sort of closed.

TWST: And as we talk in mid-May, there's a lot of attention to inflation. Did you want to talk a bit about that, given inflation risk and where investors might want to put their money?

Mr. Villere: There's definitely inflation risk. The Federal Reserve is finally kind of owning up to it. You've got the dual risks of inflation and then the way we're going to fight inflation — make sure the cure isn't worse than the disease.

I think equities are where you want to be, and you have to be careful that you're in stocks and in companies that aren't going to get hurt too badly by inflation. So, with **Freeport-McMoRan**, they own the mines. So as inflation occurs, they're sort of hedged. They already own the underlying commodity. You don't want to be in a position where you're getting pushed around or potentially can't pass on prices to your customers.

"Pool gets a big spend when they put in the pool and buy everything new. Buy the tile, buy the pumps, all the other equipment, but then basically, it's a perpetuity, where they're going to have to keep buying the various products and generally speaking, Pool with a dominant market share, is going to get the bulk of that spend. It's a great business from that perspective."

Another thing to keep an eye on is the three fastest-growing states in terms of population in the United States are Florida, Texas and Arizona. Those are pool markets, right? Florida, Texas, and Arizona are very hot and showing a lot of growth. Any development that goes on there is going to have a high percentage of homes that have swimming pools. **Pool** gets a big spend when they put in the pool and buy everything new. Buy the tile, buy the pumps, all the other equipment, but then basically, it's a perpetuity, where they're going to have to keep buying the various products and generally speaking, **Pool** with a dominant market share, is going to get the bulk of that spend. It's a great business from that perspective.

Now the stock is down over 30% off its highs. We think that's related in large part to supply chain disruption, but in housing concerns — but we think it's definitely more protected from those issues than they're getting credit for. You don't get many chances to get **Pool** at a discount because it's such a high-quality name. And so, we think it's attractive at these levels.

TWST: And I guess too as people spent more time at home during the pandemic, they started to think about what they can do to make their home more livable. Maybe building a pool and being out there during the warmer months is something that grew interest in the company and related companies.

Mr. Villere: Absolutely. I think that it probably became very popular during the lockdown for that reason. But unlike people putting in home gyms that might be sitting there gathering dust, this is something that's going to continue to drive sales for **Pool**. So once those pools are in, they're going to keep paying, and like I said, the move to those states is I think a long-term phenomenon. So yes, part of the pullback is maybe if we're not in a lockdown forever, then people aren't just going to keep

I think it is important to think through with your investments what type of companies and how exactly they're going to react to potentially longer-term inflation. That's a big thing for investors to think of.

1-Year Daily Chart of Freeport-McMoRan Inc.

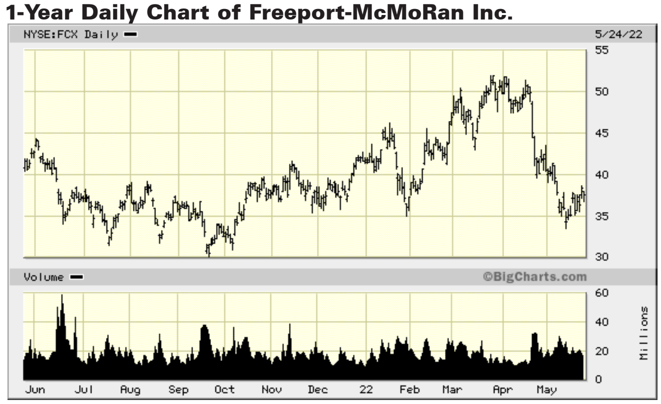

Chart provided by www.BigCharts.com

The last place you want to be is in bonds where you've got the double whammy of rising interest rates and the value of the money you ultimately pay back in the bond being worth less than it is today. That can be pretty unattractive for some people. Bonds are critical and we certainly hold bonds both in the balanced account and in some of our separately managed accounts where protection of principal is paramount. But it's hard to get too excited about Treasury bonds, especially at these levels, with where things are going to be headed — from the inflation and from the interest rate perspective.

TWST: And you mentioned interest rates. What about the people that are in retirement or nearing retirement? Should they still hold equities and maybe those that pay a little higher dividends?

Mr. Villere: That's where we try to put people. That's exactly right. So, with the bonds, you've got no inflation hedge. Cash, your money is just basically in a slow burn doing nothing for you, but actually moving in the wrong direction. But certainly dividend-paying stocks are about as good as you can do. Again, being careful to find companies where they are protected from inflation. We're more focused on companies that have the bulk of their revenues in the United States. No place is perfectly safe, but we think we're more protected from whatever the risk is, whether it's the Middle East or Russia-Ukraine, or any other kind of incident or situations going on outside of the United States.

TWST: And for a while, a lot of people were investing in certain big tech companies no matter what the valuation was. What's your feeling about them now? And do investors have to watch valuations carefully now?

Mr. Villere: We've been for a long time very wrong about not playing the big tech, the FANG — **Facebook** (NASDAQ:FB), **Amazon** (NASDAQ:AMZN), **Netflix** (NASDAQ:NFLX) and **Googles** (NASDAQ:GOOG) of the world. That certainly hurt our performance not being involved with those. And not that we're glad to see investors getting hurt from those trading off, but certainly it's nice to have a little bit of validation that stock prices don't go up forever. Eventually, the companies are just being valued way too highly, but we still look at them.

Like I said, we're not afraid of a large-cap company. Generally speaking, large caps are great. They're very liquid. You have great visibility into what's going on there, but they're generally too expensive. We'll certainly watch them and would be happy to buy them if they get to our price targets, but they're not close yet.

TWST: And do you think that younger investors are going to be ready if they are heirs to their parents' or grandparents' portfolios? To take those over and be successful as investors?

Mr. Villere: Hard to tell. A lot of those portfolios are currently managed by us, and firms like us. Obviously from a professional perspective, we hope the younger generation sticks with that mindset. But it's hard to guess what that next generation will do.

Hopefully, it's a while and they have some time to observe what's going on in the market, and they accrue enough wisdom and not do anything foolish. But hard for us to tell.

TWST: And maybe you could conclude by talking about the advantages of going to a firm that's family-owned, has been around for a long time, and provides a more personalized service to its clients.

Mr. Villere: Sure, two big points there. Number one, the family firm that's been around a long time. Generally, when somebody is looking for a money manager, the biggest thing is trust, right? We as money managers focus on performance, which is obviously very important, but trust is number one. We're here in New Orleans, we're very rooted in the community. We have been with the firm for four generations, but longer than that, previously. We're a known quantity and we hope that gives people a little bit of extra comfort.

Also, we can't promise performance, but we can promise service. We not only obviously talk to our separate account clients whenever they have questions or comments, we also talk to our mutual fund clients whenever they have questions or comments. I think that's unusual. When we first started offering it, we were afraid we were going to get a million calls. But it's a manageable number of calls and it's great to hear from our investors.

When, for instance, our clients pass away, or have other disruptions, we work with them to get the paperwork they need and we handle all the needs that we possibly can, point them in the right direction for others, and sort of hold their hands through any process.

When you call us, you get a person on the phone. It's not quite the same experience I think when you call some of the more massive firms out there, where you get a phone tree and hope you can get somebody. And it's never going to be the same person as it was the last time. Our clients get a partner assigned to them as well as a service manager assigned to him. So they've got two primary points of contact. It's just a level of service that you don't need every day, but when you do, I think it's sure nice to have.

TWST: And anything else we haven't talked about?

Mr. Villere: Generally speaking, obviously, the market has been particularly crazy over the last few weeks. We're doing everything that we can, but generally, that's the same thing we always do, which is look at the companies on our portfolio every day, look at the companies that we're considering adding to the portfolio every day, look for prices and try to make strategic moves that will produce the best risk-adjusted returns for our clients. Nothing has changed here, and nothing will change, and we're feeling excited about getting some more opportunities.

TWST: Thank you. (ES)

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