Viemed Healthcare (VMD, VMD:TO)

Price (12/31/20): $7.76 USD Market Cap (12/31/20): $338 million USD
Stock Gain (2020): +25.2% Portfolio Weight: 28.9%

Description

Viemed is a healthcare company operating in the US market. Viemed's main focus is ventilators, particularly non-invasive ventilators that are provided in the home for late-stage COPD patients. Viemed trades both on the Toronto Stock Exchange in Canadian Dollars (CAD) and on the NASDAQ in US Dollars (USD).

Growth

Viemed has both benefited from and been hurt by the COVID-19 crisis, but the upside has been much greater than the downside, although both are only temporary. Viemed took advantage of their position in the ventilator market to act as an intermediary to supply hospitals with ventilators, PPE, and necessary know-how. Over the first nine months of 2020, Viemed brought in over $30 million of revenue from such sources, and they continue to expect more over the coming months. Although lower gross margin than their core business, these sales did not require much of an increase in operating expenses, and much of this windfall fell straight to the bottom line. These opportunistic sales were behind much of the 58% growth in revenue over the last year (through Q3 2020). And because of the leverage on their operating expenses, their net income more than tripled!

The concurrent downside is that due to lockdowns of hospitals across the country, the growth of their core business – in-home NIV (non-invasive ventilators) for COPD patients has slowed significantly. Indeed, their active vent patient count is now only 5% higher than a year ago. Nevertheless, we believe this is only temporary and that they will resume their rapid growth. A look at the trends shows that the second quarter (April-June) was the weakest for their core business (with core revenue up "only" 14% y/y), but growth in revenue and active patients has picked up for the third quarter and is expected for the fourth quarter as well.

Competitive Bidding

After April's announcement that CMS (Center for Medicare and Medicaid Services) was withdrawing non-invasive ventilators from the CBP (Competitive Bidding Program) scheduled to begin in 2021, CMS surprised in October with an announcement to remove almost all product categories (except for back braces and knee braces) from Round 2021 CBP. CMS's stated reason was "because the payment amounts did not achieve expected savings". Apparently, the bids submitted to the agency would have *increased* reimbursement, rather than decreased, something the CMS was not happy with. Although the CMS's capricious and arbitrary decisions still have the power to move Viemed's stock in the short-term, we continue to believe that Viemed is positioned to do well whether with the CBP or not, an analysis that we have shared in these pages a number of times in the past.

Stock-based Compensation and Phantom Share Program

In our 2019 Portfolio Update, we highlighted excessive stock-based compensation and phantom share programs as an area of concern with Viemed. The issue moderated somewhat in 2020, mostly due to the increased revenue and income, lowering the stock-based compensation as a percentage figure. We continue to monitor the situation.

Conclusion

We remain excited about Viemed's long-term growth potential and look forward to their rapid growth resuming as the COVID-19 crisis winds down over time. Indeed, as we have mentioned, Viemed has already begun resuming their growth path, and we are along for the ride.

Lindblad Expeditions (LIND)

Price (12/31/20): $17.12 Market Cap (12/31/20): $867 million
Stock Gain (2020): +4.7% Portfolio Weight: 20.6%

Description

Lindblad is a small-ship cruise company focused on the expedition market. Lindblad primarily offers nature-oriented cruises to exotic locales such as Antarctica, the Arctic, the Galápagos Islands, and similar regions. These cruises are more expensive and profitable than the standard fare offered by mainline cruise companies.

Operations and Balance Sheet

We do not have much to add to our COVID-19 Update from April. Lindblad's cruises and trips have been entirely shut down since March and will continue to be shut down for months to come. Nevertheless, we believe that Lindblad's revenues will bounce back post-COVID with significant pent-up demand from people eager to leave their homes and travel.

In the meantime, Lindblad has successfully managed its expenses lower (to a total of ~$10 million a month) and has taken steps to bolster its balance sheet. They have drawn down their $45 million line of credit, they have borrowed an additional $85 million through the Federal Reserve's Main Street Loan facility, and in August, they raised an additional $85 million of convertible preferred stock, diluting the common stock about 15% (and more over time as dividends accrue). These steps have left Lindblad with a little more than $200 million at the end of the year, which gives them significant runway to survive to the other side of COVID-19 and resume thriving. They continue to sell cruises for future travel, and the majority of cancelled travelers continue to choose future travel credits over refunds up-front.

Conclusion

Since its lows in March, Lindblad's stock has more than quintupled! Surprisingly, even with the (temporary) total cessation of all revenue, Lindblad's stock actually closed the year higher than it started. Partially, this is no doubt due to its having started the year undervalued. But a major portion of the renewed enthusiasm for Lindblad's stock and other heavily-hit industries is no doubt attributable to the frothiness we have repeatedly mentioned seeing in the market. We continue to believe that Lindblad has an excellent long-term franchise which will thrive post-COVID, and we continue to hold the stock, but we are likely to lighten or exit our position if it continues going up significantly.

Silicon Motion (SIMO)

Price (12/31/20): $48.15	Market Cap (12/31/20): $1.8 billion
Stock Loss (2020): -2.3%	Portfolio Weight: 18.6%

Description

Silicon Motion designs and sells controllers which manage the NAND flash memory ubiquitous in modern computing. Wherever there is NAND flash, there must be a controller, often one from Silicon Motion. SIMO is an ADR (American Depository Receipt) trading on the NASDAQ.

2020: Growth Despite Adversity

Despite COVID-19 and ensuing lockdowns in China and worldwide disrupting their end markets and reducing their expected growth, Silicon Motion did very well in 2020. With three quarters under our belt and preliminary numbers for the fourth quarter recently released, we calculate that Silicon Motion grew their revenue close to 20% for the year and their net income about 50%. High growth was evident across their product divisions, be it client SSD, eMMC+UFS, or SSD Solutions, and they continued to gain market share.

2021 and Beyond: Continued Growth Ahead

Silicon Motion is set to continue growing in 2021 and beyond, both through end market growth and continued market share gains. In 2021, Silicon Motion is expected to benefit from continued scaling of their Kingston relationship in client SSDs, increased penetration of UFS into mainstream mass-market smartphones, and expansion of their one open-channel SSD program with Alibaba last year to three programs this year. We expect growth across every division in 2021.

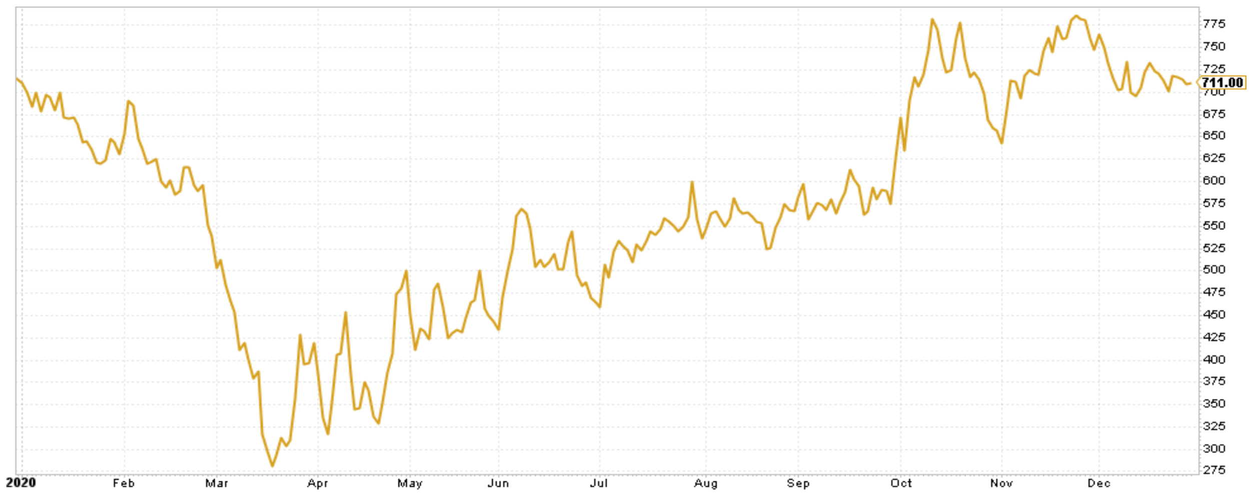
Looking further ahead, Silicon Motion has design wins with 5 of the NAND flash makers for PCIe Gen 4 SSD controllers, instead of the 4 they worked with for Gen 3. They have also won a second UFS customer for the smartphone market. Both of these programs will begin in the latter half of 2021, but will scale more significantly in 2022 and the years ahead. Silicon Motion also expects to begin breaking into the enterprise controller segment in 2021, an entirely new segment for them, with further scale in 2022.

One risk to highlight is SK Hynix's recent purchase of Intel's NAND division. Presently, Intel exclusively uses Silicon Motion's controllers for their SSDs, and there is some concern that SK Hynix may switch to internally developed controllers as they previously did during their transition from eMMC to UFS. We do not believe this is a major concern. Firstly, SK Hynix has laid out their roadmap for the Intel integration, and no significant technology changes are in the cards until about 2025 at the earliest. Secondly, and perhaps more importantly, SK Hynix themselves just started moving towards using Silicon Motion's controllers for their own SSD division starting this coming year, and Silicon Motion has said that this agreement covers multiple design wins and a multi-year road map. (SK Hynix is the fifth NAND flash maker to sign on with Silicon Motion for their PCIe Gen 4 SSD controllers, referenced above.) We continue to see Silicon Motion winning market share from other merchant controllers as well as from internal controller competition.

Conclusion

Silicon Motion is firing on all cylinders. Despite their impressive growth in 2020 and their expected growth in coming years, Silicon Motion's stock is actually down slightly for the year. We believe Silicon Motion is substantially undervalued, and we expect it to contribute significantly to the Fund's future success.

Burford Capital (BUR, BUR:LN)



Price (12/31/20): $9.67 USD (7.11 GPB) Market Cap (12/31/20): $2.0 billion USD
Stock Gain (2020): +3.8%* Portfolio Weight: 27.2%

*Fund bought majority of shares mid-2020 and gained a weighted average of +46.0% on its position during 2020

Description

Burford is a global litigation finance company, which in essence means that they fund and otherwise monetize commercial lawsuits in exchange for a portion of the proceeds received. With their dual-listing in October, Burford now trades both on AIM (the junior London stock exchange) in Great British Pounds (GBP) and on the New York Stock Exchange in US Dollars (USD).

COVID-19

As we explained in our COVID-19 Update in April, litigation finance is not particularly hurt by COVID-19, and is actually likely to benefit in the long term. Although some courts are experiencing slowdowns, and resolutions of ongoing cases may be delayed into the future, this is not a matter of concern for two reasons. Firstly, this is entirely deferred revenue, not lost revenue. When a restaurant closes for months, all that potential revenue is lost – when it reopens, people will not buy twice as much food. But any court slowdowns or resolution delays are just that – delaying for a bit into the future, with no revenue going lost. Secondly, Burford's contracts are often structured in a manner that provides Burford with a greater return the longer it takes for the matter to resolve. So in many cases, Burford is compensated for its time, and the burden of delay falls on Burford's counterparties, not Burford.

In the long term, Burford is likely to benefit from COVID-19. Like any other economic dislocation, COVID-19 is likely to increase disputes and litigation, be it from directly COVID-related litigation (e.g. business interruption insurance, force majeure clauses, etc.) or simply from more projects and deals failing, with litigation generally a product of failure much more than success. And COVID-19's economic hardship is also likely to lead more companies to want outside financing for their litigation as they seek to husband their liquidity.

H1 2020

Burford only releases earnings and financial statements semi-annually, so since we introduced Burford in April, we only have numbers from H1 earnings release. There are three major takeaways from the H1 numbers. One, commitments to new litigation were sharply down in the first half of 2020. The world ground to a halt for a few months, and litigation finance was not the first priority of lawyers transitioning to working from home. Two, deployments on previous commitments were also down, but not as severely, as general litigation activity took a short-term hit as well. We expect both of these to rebound quickly, and indeed, Burford has indicated that the pipeline is rebuilding. Three, recoveries have continued apace. In fact, the first half of 2020 was a record for Burford, with income almost as high for the half year as for the full year of 2019. Litigation finance is lumpy, and when and how specific cases will resolve is unpredictable, so we don't expect every half year going forward to be as good. But after a relatively slow 2019, with few wins or losses, this is good news nonetheless.

Conclusion

We recently presented on Burford Capital at an online investment conference, and we're happy to share our slides with any of our investors who'd like to see it – just shoot us an email, and we'll send you a link. We are super excited about Burford, and we think the Fund will benefit from having Burford in our portfolio for years to come.