

**Hiding In Plain Sight:
Daily Journal Corporation
(NYSE: DJCO)**

**VALUEx 2019
Klosters, Switzerland**

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The Daily Journal Corporation (NYSE: DJCO)

An American Publishing and Technology Company

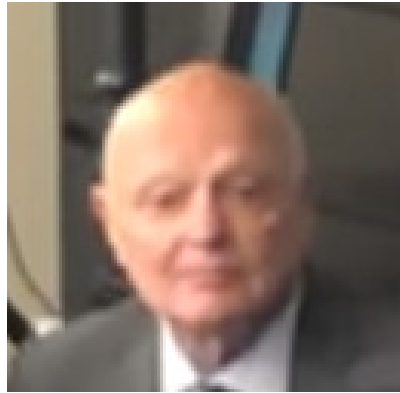
- Misunderstood/Hidden Business Model
- Off Financial Statement Value
- Undervalued Microcap Compounder in Huge Space
- Highest Quality Board and Management Team



Daily Journal Corporation Board of Directors



Kaufman



Salzman



Munger



Wilcox

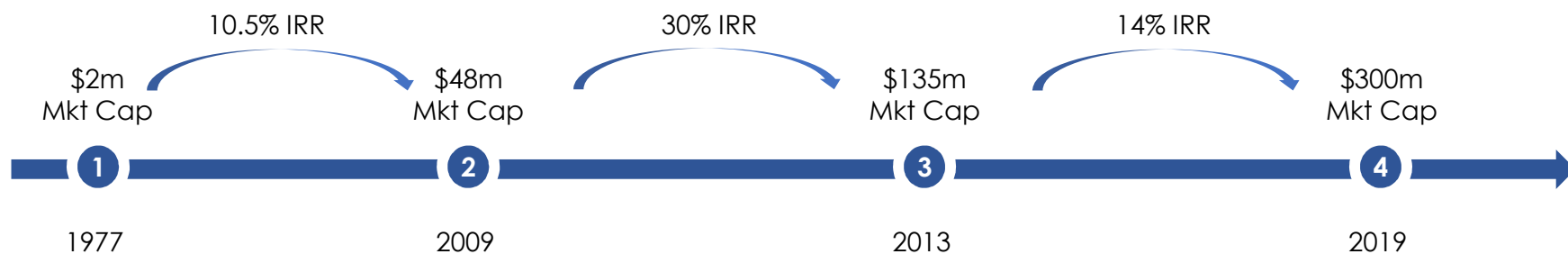


Guerin

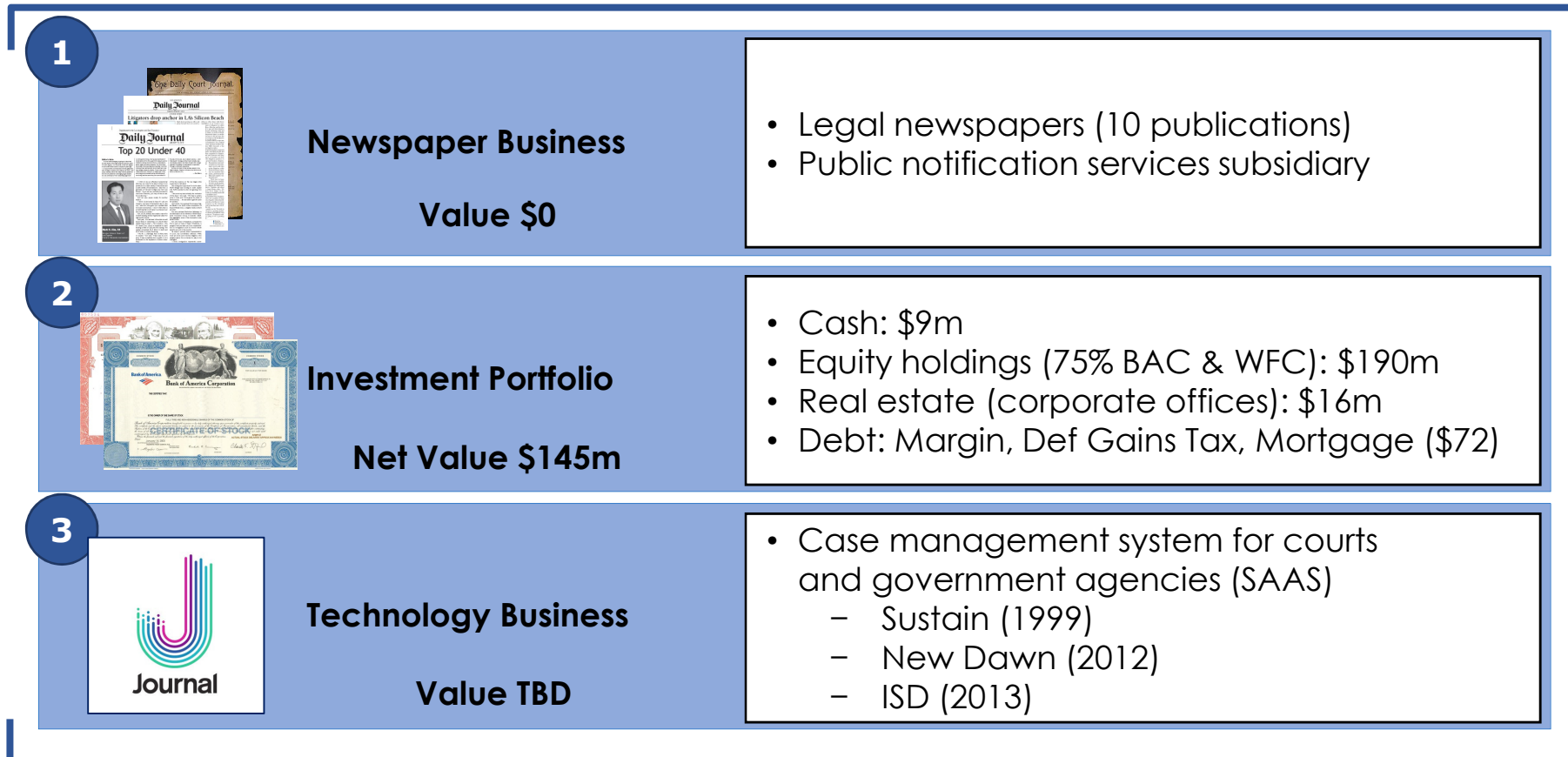


TIMELINE OF PROMINENT EVENTS

- 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



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

Deferred Gratification – 100+ contacts uncovered, many with years of differed revenue masking profitability.

Contract	Links	Court/Agency	Nonrecurring Rev	Recurring Rev	2017	2018	2019	2020
1	http://dccouncil.gov	Washington DC			\$ 153,000	\$ 156,825	\$ 160,746	\$ 164,764
2	http://sccgov.iqn	Santa Clara County			\$ 211,519	\$ 222,095	\$ 233,200	\$ 244,860
3	https://solano.legis.ca.gov	Solano County, CA			\$ 215,000	\$ 93,000	\$ 95,325	\$ 97,708
4	https://www.placer.ca.gov	Placer CA	\$ 220,000	\$ 95,000	\$ 220,000	\$ 95,000	\$ 97,375	\$ 99,809
5	http://opendocs.org	Cook County	\$ 543,100.00	\$ 329,250.00	\$ 329,250	\$ 337,481	\$ 345,918	\$ 354,566
6	http://apps.fortworth.gov	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	https://www.alpharetta.ga.gov	Alpharetta, GA	20000	17500		\$ 20,000	\$ 17,500	\$ 17,938
9	https://www.dekalbcountyga.gov	Dekalb County, Georgia		46500		\$ 46,500	\$ 47,663	\$ 48,854
10	https://www.caldwellidaho.gov	Caldwell, Idaho	64197			\$ 64,197	\$ 65,802	\$ 67,447
11	http://montgomerycountymd.gov	Montgomery County	65682	113570		\$ 65,682	\$ 113,570	\$ 116,409
12	http://docplayer.net	Maricopa County Agencies		\$ 170,410		\$ 170,410.00	\$ 178,950.00	\$ 187,917.00
13	https://docs.legis.wisconsin.gov	Madison WI	\$ 200,000	\$ 102,000		\$ 200,000	\$ 89,000	\$ 89,000
14	https://dupagecounty.net	Dupage County	200000	\$ 109,540		\$ 200,000	\$ 109,540	\$ 112,279
15	https://static.spokane.gov	Spokane Municipal Court	\$ 290,000.00	\$ 123,000.00		\$ 290,000	\$ 126,075	\$ 129,227
16	http://www.ct.gov	Conneticut	\$ 330,000	\$ 77,300		\$ 330,000	\$ 77,300	\$ 79,233
17	http://www.marioncountyor.gov	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	http://www.courts.gov.au	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						
	https://www.tuolumnecountyca.gov	Tuolumne Superior Court						

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

Building a \$1 Billion Business (ignoring publishing)

Multi-channel revenue expansion

1. Contracted annual 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)

- SAAS revenues will jump higher in coming years as implementations complete
- Expect \$150m in recurring JTI revenue within 10 years, net margins to exceed 25%
- JTI value over \$600m and net investment portfolio over \$400m within a decade
- DJCO under \$300m Market Cap today will be 3-4x higher within 10 years
- Double digit IRR 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	✓ Large Market for Sizable Sales Increase	• 3,000 largely untapped counties with underutilization of government focused software solutions.
2	✓ Determination for New Product Development	• Significant new product opportunities including district attorneys, adoption agencies, courts, and others.
3	✓ Effective R&D Effort	• Difficult to determine yet management prioritizes coordinating teams with diverse skills, incentivizing productivity and communication. Each aid success of R&D efforts.
4	✓ Above Average Sales Organization	• Advertising, sales and distribution all valuable aspects. Sales teams consist of high quality people with low attrition.
5	✓ Worthwhile Profit Margin	• SAAS business models exhibits strong profit margin potential. Long term contracts maintain margins during downturns in business cycle.
6	✓ Actively Maintaining or Improving Margins	• Low cost focus while delivering high value to customers. Contracts include built in price increases.
7	✓ Excellent Labor and Personnel Relations	• 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	✓ Outstanding Executive Relations	• 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	✓ Depth of Management	• Top quality management exists today however many known board members lack technology experience. Future leaders are unknown.
10	✓ Cost and Accounting Controls	• 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	✓ Peculiar Advantages Relative to Competition	• Board of business titans. Incorporate sustainable moats and execute based on invariant strategies like integrity, differed gratification and win-win relationships.
12	✓ Long-term vs Short Term Profit Outlook	• Exceptionally long-term outlook
13	✓ Aversion to Shareholder Dilution	• Equity share count is fixed. Access to extraordinarily low cost dept through equity portfolio. Internal financing available through rapid growth in cash flows.
14	✓ Frankness Regarding Negative Developments	• Management speaks infrequently but with frankness regarding risks.
15	✓ Management of Unquestionable Integrity	• 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 ”



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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.



Commentary

Valuation

Newspaper

- 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

- 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



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.

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