

We Don't Make Pizzas

Here at the Albert Bridge Restaurant, the investment team has the chefs, the IR team has the waiters, and the operations team ensures that the shop runs smoothly so that we can keep on serving up alpha (hopefully) to you, our customers.¹

We believe we have a very good alpha recipe, and – at least historically – it usually cooks well. Yet, we still tinker with it, and try to make good dishes even better over time. When we find all the right ingredients, and mix them up in perfect proportions, you are happy, go home satisfied, and look forward to your next visit.

Over time the quality of our menu is fairly consistent. Moreover, and importantly, the food tastes differently than the grub served down the road by most of our restaurant peers.

While you may be visiting our restaurant several times a year, Mr. Market is a little more finicky. Occasionally, he is sitting with his family at the four-top next to yours, there with Mrs. Market, and their kids Johnny and Sally Market; but he usually takes them to more popular venues. When that table is empty, it isn't because we've done a poor job sourcing ingredients at the fishmongers or fruit market that morning (or month, or quarter); it is because Mr. Market's tastes have temporarily changed.

And that is fine by us, because – with no disrespect to Arlo Guthrie – you can't get anything you want at the Albert Bridge Restaurant.

As it turns out, sometimes when Mr. Market dines out, he wants things a little less spicy, like a chicken korma; and at other times, he wants things a little spicier, like a chicken vindaloo. Sometimes he wants his chicken dish with steamed rice and a glass of tap water, and sometimes he wants coconut rice and a pint of Cobra.

And sometimes, like in 1928, 1972 or 1999 he only wants pints of Cobra.

The Albert Bridge Restaurant doesn't even serve Indian food. Ours is a European-themed restaurant. But whatever cuisine we choose to serve, it is very difficult for us to anticipate these tastes in the short-term. Guessing changes in short-term cravings actually can be very distracting. So we broadly don't try. During these periods, Mr. Market isn't interested in eating our food. Luckily, however, we have a big freezer; so we keep on cooking.

When this happens, we often find the ingredients are on sale, so we stock up, and place them in two separate cupboards; the fundamental cupboard and the behavioural cupboard. In the fundamental cupboard, our main ingredient is value.



Arlo would like some alpha please...

Value is like pasta. Sometimes we use penne, sometimes linguine, and sometimes ravioli. We can get value from a sum-of-the-parts model, or even a DCF; or we can get it from an absolutely low P/E ratio, or even one that is relatively low vs its peers or growth prospects.

We also like to mix in improving financial metrics. Improving fundamentals are the sauce. Sometimes we use a good bolognese of increasing ROICs, and at other times we go with a pesto of a de-levering balance sheet. Occasionally, we'll even serve an arrabiata of top-line sales growth.

Then we top it off with a little quality. Quality is like parmesan cheese. On some dishes, like our pappardelle al cinghiale, a few teaspoons make the meal perfect; while on others, like our linguine all'astice, we won't use any parmesan at all. It doesn't need any, and the head chef would get angry if you tried to add some.

¹ And sometimes the cooks work overtime as waiters.

We also have to choose the perfect wine to serve with dinner; perhaps a big brunello with the wild boar or a vernaccia with the lobster. If they are corked, or if we haven't given them long enough in the cellar, it can spoil things. That can happen, but usually – at least historically – most of our combinations turn out very well and our guests are more than satisfied.

Finally, we'll reach over into our behavioural cupboard for the ingredients to make the perfect dessert. We might cook up an underreacting tiramisu or an overreacting panna cotta, but we have one steadfast rule: we don't let our guests skip their main courses. Mr. Market can sometimes be a glutton, and he may even try ordering dessert first, stuffing himself with cannoli before the primo or secondo arrives. We don't let our guests skip their main courses.

After dinner and dessert, we insist on offering either an espresso or limoncello (or both) to finish things off. Espresso and limoncello are acquired tastes, and once obtained, they are the perfect complement to the evening. Those that haven't yet acquired the taste don't like to visit the restaurant, because the espresso or limoncello ruins it for them. On those nights, the table next to yours at the restaurant sits empty.

We actually don't mind when it sits empty. We have a strange business model - we don't want the restaurant to always be full. We aren't going to stop serving espresso and limoncello, and rarely will we add anything to the menu that everyone already knows is awesome, just to fill the place up.

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