

The Year in Review 2021

Adjusting to the New Normal

With Vax Mandates, un-vaxed Open Borders, Loss of Energy Independence, Open Looting, a Cold War with China, High Inflation, Backlogged Ports, an unaccountable FBI/DOJ/Pentagon, and a potential new Covid variant...

Can the American Dream Hold on?

Distressed Investing 2021 Conf. – *Steve Gidumal, Virtus Capital, LP*

November 29, 2021



Biden Vision 2021

A Year Dominated by One Man

Like the Previous Four Years, a Year Dominated by One Man.

- Albeit, a Different Dominating Man.
- The US Southern Border was thrown open by February, estimates are that over 2,000,000 migrants have entered the country.
- Biden Admin admits unvaxed Migrants are being planed and bused to cities across the country.
- The US Labor Force declined from 158.6 mm in 2019 to 154.0 mm 2021 (-3%), while Covid Stay-at-Home checks wrecked work incentives leading 10.4 million jobs to go unfilled with 7.4 mm known unemployed.
- Closing the Keystone pipeline which carried oil from Canada into the US, the Biden Admin is now bringing in oil from OPEC and Russian owned oil companies while urging OPEC to pump more.
- The political Federal Reserve starts to try to unwind Quantitative Easing (issuing Treasury debt, that the Treasury buys itself); but leaving interest rates low and fueling Inflation.

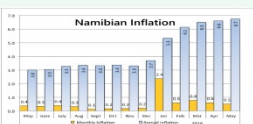


Biden Vision 2021

Can Asset Prices stay Up with so many Cracks in the Foundation?

Has the Stock Market Adjusted to the New Normal? :

- Interest rates remained Low (30-yr yields mostly ranged from 1.90% to 2.05%)
- But Inflation jumped to 6.2% in October 2021 vs. 1.8% in 2019
- Inflation highest since 1991. In 1991, 30-yr Treasury Avg. Yield was 8.14%
- On Day 1, Biden cancelled the Keystone Pipeline – stopping inflow of oil from Canada
- WTI (West Texas) crude today is \$78.33; OPEC oil is \$80.75; Canadian oil is \$59.53
 - Forcing the US to pay more for oil helps Russia, Iran, Venezuela.
 - Gasoline at the pump avg. \$2.69 in 2019; today \$3.60 (+34%) (PA avg.)
- Retailers & Manufacturers reported strong sales gains year-over-year as Consumers recovered from the Covid year and started returning to normal.
- But will year-over-year growth carry into next year? Will the new South African Covid variant be a Growth Killer? On Friday, the Stock Market thought so.
- Chaos at the US southern border remains a matter of national security with no signs of stopping.

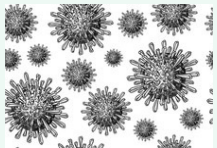


Biden Vision 2021

But Hold On – Here Comes the Omicron Variant!

If the Omicron Variant from South Africa hits the US it will :

- Likely lead to a new round of Lock-Downs
- This will close Businesses and hit the airlines, cruise lines, restaurants, movie theatres, small local shops HARD;
- Bond yields will collapse as the US will move to a second No-Growth period;
- The stock market will decline, but probably not the -36% decline the Dow fell at its worst, as Investors can now predict how the new Covid strain will be handled;
- Pfizer is rumored to be nearing a drug that directly attacks and kills the Covid virus; which could be a game-changer; although it is unknown how the drug will perform against the Omicron variant.
- The market showed its fear of the Omicron variant Friday, Nov. 26 as the Dow fell -905 points (-2.56%), in its worst one-day loss in over a year.



The Macro Environment 2021

Demand - Bounced Back Better...

But New Covid Variant may Lead to Worldwide Shut Downs

	<u>GDP % '21</u>	<u>GDP % '22</u>	<u>Δ '21/'22</u>
China	8.3 %	5.8 % ¹	- 30.1 %
India	9.0 %	6.8 %	- 24.4 %
Euro Zone	5.1 %	5.0 %	- 2.0 %
U.S.	5.5 %	3.3 %	- 40.0 %
Japan	2.5 %	2.0 %	- 20.0 %
Russia	4.3 %	2.8 %	- 34.9 %

¹ - “But mounting challenges in the Chinese economy point to a rising downside risk.” OPEC 2021 Report.

Source: OPEC, World Bank Forecasts.



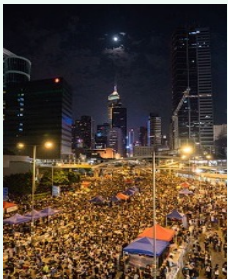
Does China *really* have the Economic Advantage over the USA?

- For the 2nd Pandemic year in a row, the US stock market has gone up while the Chinese Hang Seng index has declined. Growth fears about China.

Index	Nov. 27, '20	Nov. 26, '21	% Change
Dow Jones	29,910	34,899	+ 16.7%
Hang Seng	26,895	24,080	- 10.5%

- US Buying Power hit a high of 7.1693 on May 27, 2020, but has continued to fall as China defended its Yuan, decreasing US Buying advantage but at a cost to China too, as their goods become more expensive. (Inflationary to USA)

Currency	Nov. 24, '20	Nov. 26, '21	% Change
USD to Yuan	6.5919	6.3861	- 3.1%



World Crude Oil Prices November 24, 2021

Why the Keystone Pipeline Mattered to Gasoline Costs



Canadian Prices -26% Lower than OPEC Prices

Biden Vision 2021

The Keystone Pipeline Impact

Theory of Marginal Pricing in Commodity Industries:

If there is 1 Ton too many, the Price Collapses; but

If there is 1 Ton too few, the Price Soars.

Oil is such an Industry.

If the US were importing oil from Canada, demand of OPEC oil would drop – prices would collapse (go lower).

A \$65/bbl worldwide oil price to compete with Canadian oil would save US consumers \$124 Billion/year.

$(\$82 - \$65) \times 20 \text{ mm/bbls/day} \times 365 \text{ days/yr} = \124.1 Bil.

Half a Trillion \$ over 4 years.

(An Undisclosed TAX on US Consumers)



OPEC Production Declined, USA's Boomed

OPEC 2014-2021 Production data (Source: OPEC) (1,000 bbls)

Country	2014 Daily Bbls	2019 Daily Bbls	Oct. 2021 D/Bbls	'14 to '21
Saudi Arabia	9,713	9,794	9,759	+ 46
Iran	3,117	2,356	2,502	- 615
Iraq	3,111	4,678	4,149	+ 1,038
Kuwait	2,867	2,687	2,502	
UAE	2,794	3,094	2,828	
Venezuela	2,683	1,012	590	- 2,093
Nigeria	1,807	1,786	1,354	
Algeria	1,193	1,022	944	
Libya	480	1,097	1,164	
Qatar / 4 Others	<u>2,918</u>	<u>1,835</u>	<u>1,661</u>	
Total OPEC	30,683	29,361	27,453	- 3,230
Russia	10,221	10,625	10,780	+ 559
USA	8,663	12,232	17,570 ¹	+ 8,907
China	<u>4,288</u>	<u>3,825</u>	<u>4,320</u>	+ 32
Total World	73,420	75,262	88,813	

¹ - Incls. NGLs



Biden Vision 2021

Build Back Bituminous?

Coal Plants Being Built Back Bigger in China & India while Nuclear remains an Under-Used Opportunity.

Country	Oper. Coal Plants	Coal Plants In Cons/Anno/Per	Nuclear Reactors	Nuclear % of Elect Use
China	1,046,893	260,317	52	4.9 %
India	233,077	55,113	23	3.1 %
USA	232,772	0	93	19.7 %
Japan	49,493	6,013	33	5.1 %
Russia	43,148	2,031	38	20.6 %
Germany	41,690	0	6	11.3 %
Indonesia	36,652	30,264	0	0 %
Poland	30,652	1,060	0	0 %

Biden Vision 2021

Buy Bulk Better – Tech Extends its Dominance

Cultural & News Influence in Few Hands:

- **Facebook** owns WhatsApp (“WApp”) and Instagram
 - Verizon customers make 800 million calls per day ; but
 - WhatsApp users send 100 Billion messages per day, using 800 Billion minutes a day. WhatsApp has 2 Billion active Users (30% of World’s Population);
 - WhatsApp is almost 1,000-times as Large as Verizon. WApp is in 180 countries.
 - With loose Customer Agreements, almost ALL WhatsApp information is trackable
 - When Facebook had its ½ Day power outage, phone communications in South America ground to a halt.
- **Amazon’s** founder, personally owns The Washington Post.
 - Wash Post supports Amazon as AMZN hollows out small-store America.
- **AT&T** owns CNN, and is looking to sell it.
- **Comcast**, a cable company, owns NBC, MSNBC and CNBC.
- **Google** has a dominant stake in News, Information, and now Entertainment.



Covid Year 2 Has Allowed Retailers to Recover

Several Retailers filing BK in 2020 have Emerged

- Guitar Center – Filed for IPO
 - Mattress Firm – Filed for IPO
 - Claire’s - Filed for IPO
 - Hertz Car Rental – Now trading publicly
-
- Michaels Stores – Sold itself to Apollo Management
 - Party City - Issued \$725 mm bonds, retired bank debt
 - Game Stop - Sold high priced shares to pay off debt



Recovering from Covid

Disney 10-Q April-June (in \$mils)

<u>Income Statement</u>	<u>3 Mo's 2019</u>	<u>3 Mo's 2020</u>	<u>3 Mo's 2021</u>
Revenue	\$ 20,262	\$ 11,779	\$ 17,022
Costs & Expenses	\$(17,511)	\$(11,728)	\$(15,667)
Interest & Other	\$ (742)	\$ (4,891)	\$ 995
Taxes or Benefit	<u>\$ (393)</u>	<u>\$ 331</u>	<u>\$ 133</u>
Income (Loss)	\$ 1,616	\$ (4,509)	\$ 1,128

Almost back to normal ...



Recovering from Covid

Delta Airlines 10-Q July-Sept (in \$mils)

<u>Income Statement</u>	<u>3 Mo's 2019</u>	<u>3 Mo's 2020</u>	<u>3 Mo's 2021</u>
Revenue	\$ 12,560	\$ 3,063	\$ 9,154
Costs & Expenses	\$(10,489)	\$(9,448)	\$(6,949)
Interest & Other	\$ (124)	\$ (473)	\$ (673)
Taxes or Benefit	<u>\$ (452)</u>	<u>\$ 1,480</u>	<u>\$ (320)</u>
Income (Loss)	\$ 1,495	\$ (5,379)	\$ 1,212
Cash & Equiv.	\$ 2,885	\$ 21,525	\$ 13,202
Debt	\$ 11,961	\$ 35,584	\$ 28,455

Good CFO stewardship ...



Recovering from Covid

Carnival Corp. 10-Q June-Aug. 31 (in \$mils)

<u>Income Statement</u>	<u>3 Mo's 2019</u>	<u>3 Mo's 2020</u>	<u>3 Mo's 2021</u>
Revenue	\$ 6,533	\$ 31	\$ 546
Costs & Expenses	\$(4,643)	\$(2,364)	\$(2,601)
Interest & Other	\$ (63)	\$ (528)	\$ (802)
Taxes	<u>\$ (47)</u>	<u>\$ 2</u>	<u>\$ 23</u>
Income (Loss)	\$ 1,780	\$ (2,858)	\$ (2,836)
Cash	\$ 518	\$ 8,176	\$ 7,798
Debt	\$ 11,502	\$ 23,911	\$ 31,375

Balance Sheet remains a mess ...



Industry Bell Weathers of 2021

Energy stocks led the way with a strong rebound. But all industries recovered and the strong stayed strong.

<u>Industry Sample</u>	<u>11/25/20</u>	<u>11/26/21</u>	% IRR
Oil: XOM (Exxon-Mobil)	\$ 40.19	\$ 61.25	+ 52.4 %
Nat Gas: DVN (Devon)	\$ 14.78	\$ 42.70	+ 188.9 %
Fertilizer: MOS (Mosaic)	\$ 22.68	\$ 35.32	+ 55.7 %
Radio Broadcast: CMLS	\$ 8.77	\$ 12.25	+ 39.7 %
Lumber: IP	\$ 50.69	\$ 47.53	- 6.2 %
Homebuilder: TOL	\$ 47.56	\$ 64.47	+ 35.6 %
Steel: X	\$ 14.55	\$ 24.27	+ 66.8 %
Retail: WMT	\$151.60	\$144.90	- 4.4 %
Hospitals: HCA	\$153.05	\$231.00	+ 50.9 %
Insurance: ALL	\$104.14	\$115.12	+ 10.5 %

Tech Titan Stocks



The Millennial Monopolist Robber Barons consolidate Information (& power) Unimpeded; Covid has been very very good to them.

	<u>12/31/19</u>	<u>11/25/20</u>	<u>11/24/21</u>	<u>% IRR¹</u>
Google (GOOG)	\$1,336.14	\$1,771.43	\$2,922.40	+ 65.0%
Facebook (FB)	\$ 205.25	\$ 275.59	\$ 341.06	+ 23.8%
Amazon (AMZN)	\$1,847.84	\$3,185.07	\$3,580.41	+ 12.4%
Apple (AAPL)	\$ 72.19	\$ 116.03	\$ 161.94	+ 39.6%

¹ - From Nov '20 to Nov '21.



Hospital Stocks

Hospital stocks viewed as a strong oligopoly by Investors – Tenet continues strong recovery.

	<u>11/27/20</u>	<u>11/27/20</u>	<u>% IRR</u>
HCA	\$153.05	\$231.00	+ 50.9%
Community Health (CYH)	\$ 8.40	\$ 12.90	+ 53.6%
Tenet Healthcare (THC)	\$ 32.88	\$ 75.67	+130.1%
Universal Health (UHS)	\$132.11	\$124.36	- 5.9%

Drug Co. Stocks



Pfizer had a strong year as predicted last year; now is rumored to have an effective Covid drug (not vaccine, but drug). Eli Lilly drug portfolio (Alzheimer, type 2 diabetes) led its run.

	<u>12/31/19</u>	<u>11/27/20</u>	<u>11/24/21</u>	<u>% IRR</u>
Bristol Meyers (BMY)	\$ 64.19	\$ 63.05	\$ 56.81	- 9.9%
Eli Lilly (LLY)	\$131.43	\$147.44	\$262.00	+ 77.7%
Johnson & J	\$145.87	\$144.00	\$160.24	+ 11.3%
Merck (MRK)	\$ 90.95	\$ 79.86	\$ 82.28	+ 3.0%
Pfizer (PFE)	\$ 37.17	\$ 37.23	\$ 50.89	+ 36.7%



What to Watch For in 2022:

- The eyes of the investing world will turn for the near moment to the Omicron variant. Investing landscape will differ if the world returns to significant lockdowns.
- Inflation will eventually take its toll; however if demand dries up due to new lockdowns, inflation may be tamed for the moment. But the day of reckoning for all this (reckless) spending is coming.
- With the Fed slowing Quantitative Easing (Printing money the Fed buys itself after printing it) from \$120 Billion/mo (\$1.2 Trillion a year) to a more reasonable \$15 Billion/mo (\$200 Billion/yr) this will contract the economy.
- Congressional elections are in Nov. 2022, and if the Virginia, PA and NJ elections are any indications, Republicans could win a total of 300 seats in the next Congress.
- Like 2021, it seems a very turbulent year ahead.



In Conclusion:

Pick your Poison: A virulent Covid strain causing Lockdowns, but lower inflation and interest rates OR freedom to live but high inflation, rising interest rates and a slowing stock market.

Even Democrats know sanity is off the rails; can the Country limp in to the Congressional Midterms without sustaining more self-inflicted damage?

Best wishes for Good Investing, Steve Gidumal 11/29/21



Steven Gidumal Bio

Steven Gidumal is the President and Managing Partner of Virtus Capital, LP, a New York based hedge fund specializing in investing in restructurings and distressed securities. Mr. Gidumal has been investing capital since 1994 first at Bear, Stearns, then at Tribeca Investments, an internal hedge fund of Travelers and Citibank, where twice in 1996 and 1997 his fund was ranked among the top 5 funds in distressed investing, and since 2004 at Virtus Capital LP. In 2007, a fund managed by Mr. Gidumal was ranked the number one fund in the United States in its category by Hedge Fund Research Institute. In 2017, Virtus Capital was in the top 5% of distressed funds and has been in top 25% consistently since 2016.

Mr. Gidumal was instrumental in negotiating resolutions to the Eurotunnel restructuring in 2006, the Smartalk litigation in 2008, and as a Board member of the Mirant Recovery Trust (“MCAR”) he negotiated the settlement with Southern Energy which paid MCAR \$202 million in cash in 2009. In 2015, Mr. Gidumal led a shareholder action that stood up to a hostile buyer & forced the former Signature Holdings to announce a merger with a manufacturing company which maximized the value of Signatures net operating loss (NOL) assets. More recently, he led a successful shareholder action against Eastman Chemical over a merger price. In his career, Mr. Gidumal has served as a Committee representative or Trustee for funds or trusts and has signed checks for or approved over \$100,000,000 of legal fees and has achieved recoveries of over \$2,000,000,000 (\$2 billion) for his clients. He has litigated or negotiated business resolutions in the UK, France, China, Canada, Brazil, Mexico, Germany, Luxembourg, as well as throughout the USA.

Mr. Gidumal was a co-founder of Westside Energy in 2003, an oil and gas exploration company focused on drilling for oil and natural gas in the western counties of the Barnett Shale in Texas. In June 2008, Westside Energy was sold to Crusader Energy for approximately \$200 million. Since 2017, Mr. Gidumal founded a real estate renovation firm that is one of the largest renovators of residential homes in the State of Pennsylvania and is currently litigating to save an historic 1812 bridge from being destroyed by the PA Dept of Transportation and the National Parks Service.

Mr. Gidumal began his career at Arthur Andersen’s consulting division (now Accenture) and was hired by Polychrome Corp. in its 1980s operational turnaround, where Mr. Gidumal became the company’s youngest senior executive. Mr. Gidumal has been a speaker at the Distressed Investing annual conference in New York since 1996. Mr. Gidumal has a BS (with honors) from the Wharton Business School of the University of Pennsylvania and has a Masters’ in Business Administration (MBA) from Harvard Business School where he graduated as a Baker Scholar with highest honors.

