



November 06, 2024

THE LONG PULL: MOHO Idea Lunch #9 w/ David Bastian

A big thank you to those who joined live for last week's MOHO Idea Lunch webinar on the Anatomy of the Perfect Special Situation Investment with David Bastian of Kingdom Capital.

This was a 30-minute crash course on how to invest in special situations (and, more importantly, how *not to invest*).

David is one of the smartest investors I know. He invests in companies and situations I've never heard of before, and isn't afraid to be the lone contrarian.

Anatomy Of A Perfect Small-Cap Special Situation

 **KINGDOM CAPITAL**
— ADVISORS —

You can watch the entire webinar [here](#) and read the slide deck [here](#).

Here are my Cliff Notes from the MOHO presentation.

Simple, Stable, and Self-Help ...

The perfect special situation is **simple to understand, stable enough** to withstand thesis variance, and in control of their own destiny (David calls this “in the driver’s seat”).

Sometimes, I crave complexity because I want to *feel* smart. But that’s the dumbest thing you can do for returns. My best returns are always my most simple ideas. The same applies to special situations.

Whatever you do, avoid litigation ...

Litigation adds a layer of complexity and can delay future returns indefinitely, thus reducing an investment’s expected IRR.

David mentioned Sable Offshore (SOC) as a current example. SOC is trying to restart offshore oil and gas assets in California. Maybe that works. But maybe it takes 5-10 years to get there?

Other examples included Harbor Diversified (HRBR) and Seritage (SRG).

Tread lightly with Risk Arbitrage ...

“Risk arbitrage is not a special situations investment. There are entire investment firms dedicated to investing in risk arbitrage situations. And they are the best at what they do. So know that when you try risk arbitrage, you are competing against those people.”

"If you still want to run around the house with scissors, go ahead. But there are easier, and safer, ways to make a buck." - Joel Greenblatt

Case Study On What’s Worked: Unit Corporation (UNTC) ...

- **Simple:** They have a bunch of rigs & wells
- **Stable:** They generate a lot of cash
- **Self-Help:** Buybacks & Dividends

Case Study on What’s Worked: Net Office Lease Properties (NLOP) ...

- **Simple:** They have a bunch of cash-flowing office buildings
- **Stable:** They generate a lot of cash
- **Self-Help:** Active litigation, targeting full wind-down in 3 years

What Hasn’t Worked: Vertex Energy (VTNR) ...

- **Timeline:** Made tight by cash burn at company forcing adverse capital raises
- **Complexity:** Betting on unproven renewable diesel operation
- **Downside:** Betting on unproven team to create value in complex asset
- **Result:** Bankruptcy

What Hasn't Worked: Moberg Pharmaceuticals (MOB)

- **Timeline:** Waiting for FDA approval
- **Complexity:** You are not a doctor or a biologist
- **Downside:** What was priced in?
- **Result:** Rugged



How to get in contact with David ...

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