

CSC STRATEGY LETTER NUMBER 64

Venus and Mars are Alright Tonight?



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It's May 2026 and once again civilization and financial markets have made it 5-ish months into a new year without self-combusting like a Spinal Tap drummer. It is important to note that dozens of people and stocks spontaneously combust every year, but despite the increasing universality of AI, it's "just not really widely reported."

We will again adjust for the world and its legitimate competition for eyeball time and space, and get right to it, although we will always note the fun and interesting stuff that might or might be financially relevant goes after this part.

We have put 15% of capital into a handful of presently maligned software companies. Our present thinking is that having spent 30 years spending hundreds of billions of dollars buying software, forcing it upon tens of millions of its paid minions, and then hundreds of billions more guarding it with security and layers of management systems, the likelihood of corporate America handing over these systems en masse to be run by agents recently vibecoded by a few dudes over mocktails is "lowish." So yes, the crown of absurd valuations and limitless free funding is being passed on from this world to you know what, but a generally sticky business bought reasonably with 80% gross margins now being forced to drop those dollars to the bottom line in a more sober and efficient manner in the harsh light of the post-hangover world is something that should be under consideration. Who will benefit from AI change and rearchitecting and who will simply lose seats will become apparent? And imagine new shareholder-oriented board members and

better governance. It is early days and minor harm, minor foul to date.

No, we don't own huge exposure to something "memory oriented" and thus are not up 131% in the last 90 days. Some things that worked well this year have been the odd couple of "billboards and aerospace." Billboards are one of those things that are literally seen but rarely talked about in polite company or investing circles. They are increasingly restricted in presence; there is an inherent profitability uptick in converting wood to digital and they generate cash. They were decimated as a group post Covid but simply clawed their way back to normalized relevance and revenue levels. Clear Channel Outdoor (CCO) was taken over to be re-levered again privately, and Outfront Media (OUT) neatly navigated its own debt jam while hamstrung by its REIT structure, and surprisingly, is benefiting from a surprisingly monster rebound in their NY transit business, as shootings and track pushing seemingly take back of mind when you start sticking taxis or Ubers with higher minimum fees and congestion pricing. And on a topic that may become a whole letter in itself, a new position in Boston Omaha (BOC) which started as Billboard acquisition before becoming something wholly else and is enroute to roundtripping that experience with some old fashioned governance issues and some "hallowed" backers licking their wounds from the ever present potholes of human foible.

I "think" Six Flags (FUN) has rejiggered enough of senior management and jammed enough investment people on the board to make 2026 performance mostly about the

weather and not being awful in execution. It will take another 12 to 24 months of being in the 21st century as far as marketing and pricing properly to really understand the true earnings and cashflow power here, but I am glad we sucked it up and bought more in the “everything is going bankrupt” trade earlier in the year.

On a similar note, the nose was held, and a half position was taken recently in Cable One (CABO) - the stock and bonds. There is a long story of involvement here post its spin-off from Graham Holdings in 2015. It was easy money then; this will be more interesting. The stock is dirt cheap and about to become 1 turn more levered than it should be due to eating a “put” for a big deal announced in more favorable times for cable/fiber pipes. That person is gone, and there is a new CEO with the proper background which suggests more of a laser focus on operating costs than a “dabbling” culture. There are 45% margins and free cashflow under duress from the usual suspects of Starlink and Fixed Wireless. I think the risk reward is asymmetrical.

As far as aerospace and defense, I will manage to note something else besides VIASAT. But since people ask, yes, we have sold “a bunch” into what is now a 9 bagger from 18 month ago lows. While there are two new board members from the activist group who have been insanely right for all the wrong reasons, we continue to think that separating the company into “defense and other” is a dissynergical (new word) prospect, but it is correct on paper to suggest that if Viasat were perceived as just a defense tech company, it could double from here. We think the math of taking \$800mm in assets out of a warehouse and putting them up in the air to “earn” was both obvious and obviously unappreciated. Boxcheck. We think there is nothing in space happening other than launch that in some way VSAT couldn’t be seen as one of ten companies in the world with competence. And lastly, the value of their spectrum continues to represent a very wide cone of value variability that is highly asymmetrical to the upside. But space lacks linearity. And while Starlink/SpaceX will not have 100% share of anything, it remains competitive in every VSAT sector and increasingly in airlines. Higher values require more things to go right. Size appropriately. And if you are asking, the SpaceX IPO is as a NEGATIVE for almost every other publicly traded space “thing.” (ASTS example 1)

Obviously, we did not foresee two wars globally decimating the supply chain and inventory of weaponry that is producing what will likely be a massive and possibly longer than my life span cycle to rebuild. But it’s

here. And it can be argued it is more visible and likely less cyclical than let’s say, whatever the hell is going on in the trillions attached to conceptual AI spending. And it reinforces a longstanding trend that successful, niche, aerospace and defense companies will eventually get sucked into the maw of their larger customers and competitors. All of which has been good year to date in a variety of smaller companies that were perceived to be languishing.

We have also spent a fair amount of time this year under NDA in several investments, (we don’t use the terms “names in our book” which just sounds like investing cosplay, albeit well paid. Why?) As capital and bodies “left” public investing in general and the smaller capitalization sector in particular, we started getting calls from company management and Boards, partially due to their own frustration about their stock price and partially from our persistence and annoyance on issues from governance to compensation to M+A to dismal investor relations. This has led to a variety of “unpaid” advisory activities and finally to the creation of CSC Partners LP, which focuses on these handful of activities for financial benefit. We see fruition in some of these efforts in 2026. While the perfect world is always a good business, a good value and good management and then sit on your ass and do nothing for years, lining all three up at the same time is not as easy and prevalent as it looks. And in the smallcap world, sitting around and waiting for Godot to realize value is not shameful behavior, but an excess of it can be like being forced to watch the NY Mets without a remote while all your friends wear Dodger hats. And pay for your drinks. It is hereby suggested that forty years of experience of analyzing public investments, topped with an understanding of human behavior as it relates to working in an uncertain world, creates a qualitative value-add that can translate into money. Operators are standing by.

Overall, we return to the familiar themes beguiling our world: sector rotation in lying and fraud and misrepresentation in public and private investments, awful fiscal and regulatory changes which can at best be neutral on a transitory basis, and rising interest rate questions and credit questions. And we again note the change in the guard at the Federal Reserve to a man who seems tempted to do the right thing as far as putting the Fed on a GLP-asset diet, a path that has proven inedible to markets from time to time. In fact, while sticking this pile into Grammarly for an AI check of “almost English major,” it offered “The Cyclicity of Stupid” as a suggested headline. Word.

Which naturally leads to discussion of THE IPO of all that Elon Musk has wrought to date, and high probability attempts of whomever in AI to go public shortly thereafter. The first thought to think about is how this is another reminder of how much of life as we know in financial markets is cyclical rather than secular. It has been argued here or in front of any number of “smart money” meetings that public vs private is a cyclical issue, and that taking companies private in a fund, holding them for 1 to 7 years, and then selling it to yet another private fund and so on and so on has a natural end of life. And we are arguably here? So what to do with those pesky holdings in aging funds with investors clamoring for sponsors to make good on previous liquidity promises? What about those darn public markets? If the masses can be gathered for meme stocks and any variety of zero profit nonsense attached to the buzzword d’jure (again — NOTHING new under the sun.), well, heck, public we go. For people like “us,” there is usually a three-year lag between going public, and the smoldering wreck of a stock with a decent business within a reasonable value range. And another pushout of “your efforts have zero terminal value.”

So, Exhibit One is SpaceX, which just filed their S-1, despite more SEC violations from leaks everywhere. I am going to skip the actual math, because, well, it says the obvious, the company will be valued WELL in excess of the sum of its current value and the present value of almost anything reasonably short of a productive Mars colony with 1mm inhabitants mining AI for something. In the words of the ever-funny Matt Levine, “In 2126, SpaceX will be making like \$4 quadrillion in revenue selling nutrient slurry to asteroid minors off the shoulder of Orion, but in 2036 it will be making \$4 trillion selling enterprise AI slurry to banks in New York.”

And that is the framework to think about every investment. You can “see” the past, respect it, and generally value it within a cloud of reasonable precision. And then you add to it, “what is the present value of future growth, the capital required to fund it, ” and all the other unknown unknowns that are completely off-spreadsheet but always pop-up with disturbing regularity.” Subtract net debt. That’s your value. So investing is simple, don’t pay a lot for the second variable and be wonderfully rewarded when something good happens, or the idiocy stops. The math of SpaceX is obviously a GIANT bet that the present value of whatever goes on in MuskBrain is a positive NPV. The current moat around Launch and the wonderfulness of Starlink will not be enough to carry the day here at expected IPO valuation.

We will note 3 other things. This will be the usual abomination of corporate governance as far as voting stock in excess of economic ownership (85% voting control with Musk,) and a “controlled” company that doesn’t have to pretend to have independent directors and outlandish shareholder compensation schemes because we say so. And some good things like a Texas based domicile limiting pesky Delaware shareholder lawsuits. I will admit to being positively surprised at the initial structuring of insider selling lockups. It appears that a cacophony of whining about the suspension of lockups was somehow resolved with Musk and X insiders having to hold for a year, and a variety of other tiers for other early investors and board members. It has been noted here before that there is no law or regulation that says insiders can’t sell on the opening bell every share they have spent months promoting to the public, which includes “institutions” who on the whole are no better at checking FOMO at the door. But the custom of the country that has developed is a process of investment banks vetting the company and management as best they can, and then insisting that no insider can sell for what used to be 180 days, now more commonly 90 days. (www.sec.gov/files/rules/petitions/2023/petn4-801.pdf)

This allows one to two quarters of public earnings to be reported and creates a more legal safe space for the bankers in case they completely missed the boat or stuffed any internal naysayers into a closet who were possibly jeopardizing a monster deal fee. (See WeWork/Adam Neuman fiasco and the “stars” involved there.) Kudos to the law firms and the other vampire squids for a tiny pencil line in the sand on sanity and investor protection. And if you don’t like it, do a SPAC.

But let’s not kid ourselves. You will be buying the whims of one man, who like our big orange friend in the oval office, defines himself by vacillating from one great idea to one utterly zany and counterproductive idea. And that’s what you are getting here: a fantastic business in Starlink, what is presently a Moat in Rocket Launch and then an absolute cesspool of spend in “we are going to Mars” and “we are going to be an AI leader” and then whatever else can be conjured by the master conjurer.

And apparently, “we” are all going to own it. The Index Fund lords have waived every former commonsense sense rule against gaming an index to make sure SpaceX is included in their index. Less than 10% of shares outstanding will be freely traded on day 1. Let’s say you are an index fund. Do you frantically “buy at any price” to include it and get ahead of those “clowns in Malvern?”

Do you wait until it hits more normalized “free trading” status and more properly represents a “diversified” index? I doubt it, hence a short-term feeding frenzy. Pre-SpaceX, the top ten companies in the S+P 500 account for 34% of the profits(hold the debate as to what are considered “profits” in today’s world), so it’s an interesting concept as to how the allocation community is presently defining the idea of “low cost diversification” when many are defacto advocating for overweighting low fee, less diversification and the usual question mark on expected return. For those who think math has anything to do with valuation or this process in general, the company and all its activities is burning “at least \$5 billion on \$19 billion in revenues.”

4 Mini-history lesson. At the peak of what was clearly felt to be unassailable dominance in the early 1970s, the Nifty Fifty, accounted for roughly 45% of the S&P 500 value and spread across a more diverse mix of industries. Today, the top 10, which doesn’t include Elon and the upcoming AI IPO’s, are about 40% of the S+P and are all technology, sans Berkshire.

Since ETFs now outnumber listed stocks, Elon will be as everywhere as the Big Brother in Oceania. And I am not kidding. And just in case you missed it, and there is no reason to as dumping this 200,000 word brick into the AI of your choice and asking it questions is the reason AI exists, this is the mission statement:

With the potential to improve both space exploration and life on Earth, AI accelerates SpaceX’s mission to make life multiplanetary, to understand the true nature of the universe, and to extend the light of consciousness to the stars. xAI, which was founded in 2023 and acquired by SpaceX in early 2026, is now an integral pillar of our vertically integrated company. We are rapidly constructing AI compute infrastructure—starting on Earth with the goal of extending to space—at industry-leading pace and cost efficiency. Our infrastructure supports training and inference for Grok, which has emerged as one of the world’s most advanced frontier models. Grok is designed as a truth-seeking AI model, built on our founder Elon Musk’s mission to enable humanity to understand the universe. We believe that accomplishing this mission requires a truth-seeking approach to AI. We define truth seeking as the active, relentless pursuit of what is objectively true about reality, and grounded in evidence, logic, empirical data, and first principles thinking. Our goal is to understand and explain what the

universe appears to be doing, as accurately as current knowledge allows. Within two years of its initial model release, Grok achieved frontier-level performance in scientific reasoning, as measured by its GPQA Diamond score, an industry benchmark that evaluates AI models on a standardized set of questions written and validated by experts, on a faster timeline than reported by other leading model providers. Grok also benefits from integration with X, our real-time information, entertainment, and free speech platform, which serves as a foundational distribution and data engine for our AI ecosystem and further enhances Grok’s truth-seeking objective.

We think space represents the largest economic frontier in human history. Connectivity infrastructure in space is designed to help everyone on Earth have access to education, healthcare, entertainment, and communications, and to enable people to overcome many traditional limits, such as physical and political borders. We believe AI infrastructure in space can utilize the virtually limitless power of the Sun and thereby enable the use of AI as a transformative force for understanding the universe and improving the daily lives of all humans. We believe the convergence of these areas will enable an unprecedented expansion in the global economy, leading to an age of abundance. Our innovations and technological advancements are redefining industries on Earth, while we aim to create new ones on the Moon, Mars, and beyond. We are truly building the infrastructure of the future.

And yes, the pillars of AI and their mystery to date business models are looking to fast track their own into IPO’s. For those who have read pesky books or survived long enough to remember, massive high-profile IPOs with new math valuations have historically been signs of...not good to come for the rest of the stock market. You decide. What is not worth talking about is the short-term effects of “oh, sell everything else so we can fit these into our portfolios.”

And the fun thing about IPO’s is they start to provide a more legitimate transparency and cadence to really understanding what the heck is going on as far as spending and returns in the AI world. I am truly sick of seeing headlines like **Anthropic raised \$65bn at \$900bn pre-money, making it the most valuable AI lab** because there is little legal or ethical downside to

putting out a general headline that means nothing. The VC is a wonderful ecosystem of BS upon which raising money at higher rounds with 17 side-pocket asterisks is important. A filing with the SEC will be better at forcing the powers that be to contort themselves to better explaining the math, but having spent a recent day with filings by Meta, Microsoft, Oracle, and Amazon, drawing a coherent picture of what is being spent on "AI," where and with whom, and at what margin and what return, is at present a Rorschach exam.

Very big numbers are being tossed around the corporate AI world. Industries formerly considered cyclically hazardous are now considered "compounders" after a 10x stock run. The interlapping spend of sellers subsidizing customers to buy their own products/chips services is difficult to parse and trace ANY actual return on trillions of math spent remains off spreadsheet hallucination, and that hallucination includes private companies leaking "we are profitable math" in the midst of raising \$75 billion. This is not all about equity and people burning their funny money. As recently noted in the FT, "the unprecedented scale of borrowing that underpins the AI sector and the pressure it is putting on lenders...the sizes we're talking about... they're out of scale to anything we've thought about, ever," said Matthew Moniot, co-head of credit risk sharing at Man Group. "Banks very quickly start choking."

There are seemingly monthly announcements of a dozen trillion-dollar companies shifting opaque allegiances in spend and decade long commitments. There are interesting themes about energy use, permitting for data centers and the ratio of Press Release to reality. I don't see why the tech industry is any different than any other — fear a component shortage, order 10x your actual needs, 10x the freak-out of the manufacturer who builds 5x too much capacity and voila, things change and x years of catchup is required to re-balance. But again, hats off to a brilliant and successful speculation where actual chips are cashed in.

Makes one want to invest in an 'ol Texas cement company. (We got started.) In the words of novelist Anne McCracken, "When it becomes impossible to get a character to cross a room — a common affliction in fiction — it's because the character hasn't had a body all story, that they've just been thinking big thoughts and running their mouth, and now they have to move, only to find their entire carcass has fallen asleep. Fiction, like the real world it aims to probe, must be embodied, like concrete." The reference here is the movement from private PR to IPO. Things change, as does both the proximity to securities

fraud and the distance between option strike price and current market.

So how stupid this all is will likely be revealed within my lifetime, a vindication timeline upon which I wake every day. You can find plenty of math that suggests buying the "market" today at current multiples almost always sucks the life out of the next ten years of returns, and it has been not subtly argued here that "index investing" is a good idea that has reached 4th chocolate bar efficacy. "Investing" as far as it is practiced here is not to pivot wildly from one theme de jure to another every two weeks. This is the not the first time that enthusiasm for the potential for massive change produces "disbelief" pricing in financial assets.

To steal from something I wrote down from somewhere, "why spend all this time writing a Strategy Letter, and get a 7% hit rate out of the 4100 people it is sent to, when Jeffrey Epstein was writing emails like "hey, party at my place" and getting a response from 3 different presidents? It does help with clarity in investment thinking, but I will admit that the cacophony from pretty good AI slop and the humbling from scattered brilliance from people who are really good at this and/or really have a lot of free time makes one more inclined to read stuff than create. I can only promise clients and readers this ain't nor will it be AI Slop.

CSC is firmly planted here in Hermosa Beach all summer. Don't be a stranger.

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