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Gabelli's Dreyer On Why Sports And Value Picks Are An Antidote To A.I. Obsession

Gabelli's Kevin Dreyer explains why sports franchises, industrial suppliers, and overlooked dividend payers offer AI-resilient value in a record-high market.

Kevin Dreyer
Co-Chief Investment Officer
Gabelli Asset Management

Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Kevin Dreyer, Co-Chief Investment Officer for value at Gabelli Asset Management. Kevin says that there are plenty of values left in a market that has returned to record levels, particularly when valuing stocks based on "what an informed industrialist or buyer would pay to buy the whole business." Dreyer, part of the team running Gabelli Equity Trust and some of the firm's other closed-end funds, says that finding businesses that are "A.I. resilient" and able to withstand and/or benefit from the development of artificial intelligence is important now, and he noted that sports teams are a big draw in that regard because " You can't have an algorithm or chatbot replicate the New York Knicks … but you and I can go out and buy MSGS, which owns the Knicks."

TOPICS DISCUSSED

- M&A activity is accelerating — Gabelli's team saw its biggest Q1 for global M&A since 2021, a key catalyst for finding undervalued takeover candidates
- Rather than chasing Mag 7 names, Gabelli favors AI "picks and shovels" plays — suppliers like Modine (data center cooling) and Mirion (radiation detection)
- Sports franchises are viewed as uniquely AI-resilient stores of value, since teams like the Knicks and Rangers can't be replicated by algorithms
- Gabelli sees MSGS (owner of the Knicks and Rangers) as worth $500+ a share, well above its current ~$400 price, with a potential Rangers spinoff as a catalyst
- Texas Instruments is a top-10 holding and an overlooked AI beneficiary, with data-center revenue growing 90% in Q1
- Defense and aerospace suppliers (Ducommun, Albany International, Crane) benefit from long-term secular tailwinds tied to rising defense budgets
- Dreyer emphasizes a focus on long-term business value over short-term market direction, even amid record-high index levels

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

THE CONVERSATION

CHUCK JAFFE

Kevin Dreyer, co-chief investment officer for value at Gabelli is here, he's part of the team that runs a number of their closed-end funds and we're talking about the stock market and its ability to deliver income now, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds.

The NAVigator is brought to you by the Active Investment Company Alliance, which is an industry organization representing the entire closed-end fund business from investors and users up to fund sponsors, creators, and managers. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction.

And today, we're digging into the market with Kevin Dreyer, he is co-chief investment officer at Gabelli, he is part of the team that runs a number of their closed-end funds and their separately managed accounts, among them the Gabelli Equity Trust, which is ticker symbol GAB now celebrating its 40th anniversary. You can learn a lot more about the firm by going to Gabelli.com, and we'll put a link to the information page on Gabelli Equity Trust in today's show notes.

Kevin Dryer, welcome to The NAVigator.

KEVIN DREYER

Hi Chuck, it's great to be here.

CHUCK JAFFE

At Gabelli, and specifically as a value manager, you guys are looking for value. We have a market that's at record highs and it's forced a lot of people to redefine the way they see value, but you work with Mario Gabelli, who, by the way, was the very first analyst I ever interviewed in my career back when he was at Pershing, and Mario doesn't change much of the way he does things. So for you, how is value investing in a world that's changing this quickly, and where are you finding the right values now?

KEVIN DREYER

Yeah, it's a great question. I mean, in many ways value investing started back with Graham and Dodd back in the 1930's, it's evolved, obviously Warren Buffett is the current godfather of value investing, but what Mario's contribution to value investing, cited by academics, is private market value as the catalyst.

That's the way he started looking at it in 1977 when our firm started, and what that means is when we analyze a stock, we're not just looking for low price to book or low PE companies, we're trying to figure out what an informed industrialist or an informed buyer would pay to own the whole business, and then we're looking at companies that trade at a discount to that value that then have catalysts or events that can service that value. That's really been our north star since 1977, and still is.

CHUCK JAFFE

In this market, how easy or hard is that? I mean, on the one hand you want to be fully invested, on the other hand, if you don't find the values it's tougher to do. So how much are you finding, in a market that has so much money to put to work, that you can get the right kind of values?

KEVIN DREYER

We're finding a lot of opportunities actually, I mean, there's a lot out there. I think right now especially what we're seeing is M&A is increasing, so that's a big catalyst for us, we see industry consolidation, we find companies that we think could be good takeover candidates by other companies or private equity.

We just had our biggest Q1 since 2021 in M&A globally, so that's on the rise, which I think we expected with this administration but tariffs kind of made a pause in that for a little while, so that's been increasing, and then financial engineering as well, companies doing spinoffs, splitting themselves up, that's another catalyst that we look and there are a lot of situations like that. So we actually can find a lot of value right now, and even certain companies, the high profile ones, which I would not necessarily call value investments, but there are ways to play those at a discount as well.

CHUCK JAFFE

Well, talk about that. I've had people tell me, "Who needs to buy the NVIDIAs of the world and the Mag 7, don't they all have them more than they can really handle?" So how do you find those at value, or is it just picking off when the market overreacts to earnings that are fabulous but not extra spectacular fabulous?

KEVIN DREYER

Yeah, again, a company needs to fit within our framework, so we need to have some realistic expectation of the cash flows in the business over the next several years. We need to find what that value is and not just a random multiple we're putting on the company, we have to say, "What have informed buyers paid for similar kinds of companies over time?" But when we look at AI, look, we have a growth team, they do a great job to [inaudible 0:05:03] NVIDA and all those high-profile names. You can also get those from passive ETFs, obviously they make up a big chunk of the market.

But from my perspective, if you own a lot of ETFs, if you own a lot of the S&P 500 let's say, you've got that exposure to the Mag 7 and more, what we provide is really something very differentiated, not highly correlated to those specific companies if they end up having issues. We will sometimes buy them, we bought a good deal of Google a few years ago whenever it was starting to get into the trash heap, one quarter it was people questioning their model and we had a differentiated view, of course they're now viewed as an AI leader, so that one's worked out.

But when we look at AI, we'll look at things like what we call picks and shovels, so companies who are suppliers to say, the data center ecosystem, and that could be a lot of different kinds of companies. It could be a company like a Modine that's providing cooling for data centers, it could have to do with power, a company like Mirion that's doing radiation detection for nuclear power plants, as well as the medical business, for them as well. That's going to be an indirect play on what's going on at AI and data centers that are out there.

So there are a lot of ways to play it, we're not necessarily going to reach for those multi-trillion dollar companies that are out there, that's everyone's following, that the value team at least wouldn't have a terrific edge on and say that we have a differentiated view. We prefer situations where we feel like we know more than everyone else out there, what it is to know about a company.

CHUCK JAFFE

Depending on which of the Gabelli funds we're talking about, you have certain mandates that you need to follow, and I mentioned Gabelli Equity Trust, GAB, there you have a distribution rate of 10%, which can be return of capital, but intuitively, I would think given the nervousness that people have about this market, that finding the income producers being undervalued is exceptionally hard.

But you're saying there's plenty of values out there, where else are you finding them? Is it going after the small caps which were left behind? Because that's a mandate for you, I mean, yes, you can return capital, but this fund has always met its payout rate.

KEVIN DREYER

Yeah, certainly small to mid-caps are a big focus for us overall as a firm, we have some small cap specific funds as well as separate accounts, GAB does not really come out overall as a small cap portfolio, it's more of an all cap portfolio, so there are a lot of different kinds of companies that are in there. Maybe back to the AI play, I mean, a lot of those do not pay dividends at all, some have started to, but another company that's in there, and it's in the top 10 and one of my biggest holdings, is Texas Instruments actually, which has never really been thought of as an AI play by anyone. But their chips and their basic chips, they're a low cost producer, about 9% of their revenues are actually going to data centers specifically, that grew 90% in the first quarter, so very high growth rate.

That was a part of their business that was totally overlooked by the market a year ago, starting to be recognized now, I think the market's figuring out how sustainable that is, and the rest of their business is also doing pretty well, at least their industrial business, autos are kind of okay right now. So that stock has re-rated, it does pay a dividend, we don't screen for the dividend, it's just kind of an added bonus that we're getting some income along the way, but that would be an example of a dividend payer that we own in the fund and broadly here at Gabelli.

But there are lots that do not pay dividends that we like as well. I mean, sports has been a big theme for us, we talked about those big Mag 7 stocks, most of which were levered to AI. If there's one area that is as AI-resilient as possible, it would be sports, because you can't go and have an algorithm or a chatbot replicate the New York Knicks, who just won the NBA championship, but you and I can go out and we can buy MSGS, which owns the Knicks and the Rangers, and it's around $400 or so a share right now. The stock's done well, we think it's worth $500+ conservatively.

In addition to that, they've said they're looking at alternatives for those two assets, which in practical terms means they would probably then spin off the Rangers to be its own entity. Maybe that gets sold, I can imagine a lot of wealthy people would want to potentially be owners of the New York Rangers, a pretty premiere franchise. But that's an area, it's not about a dividend for those stocks, it's about the franchise value, it's a storer of value, and even if the market goes down 10, 20, 30%, the value of those sports teams is just going to keep growing every single year really for the foreseeable future. And they're not making a lot more of these sports teams that are out there, there are only a few ways to play them publicly, so that happens to be one of them that we like a lot.

CHUCK JAFFE

That store of value story, for folks who are nervous about where this market is headed, that's not one that gets told a lot, it's always value and you're looking for it to take off, et cetera, but is that the play for a nervous investor? When you talk to folks and they're saying, "Yeah, you know, I'm in the negative sentiment side of things," is it basically go find that undervalued thing, and yes, there's a catalyst, but it's a long-term catalyst, you can ride with this for a long time?

KEVIN DREYER

Yeah, I mean, look, I don't want to make it seem like I or we are taking a position on the market, we're certainly not building a portfolio that's some doomsday portfolio that's going to go up when the market goes down or something like that. We have a lot of companies that are very levered to all the dynamic things going on in the economy right now, AI being one of them, the industrial economy broadly. We would have companies, for instance, selling into aerospace and defense, long-term secular tailwinds there, defense budget that's increasing from a trillion to a trillion-five, the number of planes out there that are going to double over the next 20 years, in addition to companies like Boeing or Airbus that are making the planes.

So the big defense contractors, you have a lot of suppliers who make critical components, companies like [inaudible 0:11:25], ITT, aerospace suppliers that are smaller like Ducommun, Albany International, Crane, and a lot of these companies, we think, are undervalued even if they've done well, and they have these secular tailwinds behind them that are really unrelated to all the heat in the market at the moment, it's a totally separate thing that's going on and we think has a lot of legs.

So we own those kinds of companies, we own sports franchises, whether it's a company like MSGS or the Atlanta Braves, Manchester United, Rogers Communications in Canada, some people think of it as a telecom operator because it is, but then they own the Blue Jays, Maple Leafs, Raptors, they're doing a little financial engineering of sorts there too. So that's really the point, is that the market could shut down for five years and we feel like we'd wake up with higher values for all these companies. That doesn't mean we don't pay attention to the day to day and [inaudible 0:12:25] market, both to buy companies and sell companies, but our focus is really on the business value, as opposed to where it's going to trade tomorrow or a week from now or a year from now even.

CHUCK JAFFE

Kevin, great stuff. I appreciate you taking the time to join me on The NAVigator, I hope we get a chance to catch up again down the line.

KEVIN DREYER

Thank you, Chuck. Appreciate it.

CHUCK JAFFE

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yes, I am Chuck Jaffe, you can check out my hour-long weekday show by going to MoneyLifeShow.com or just search for it where you find your favorite podcasts. Now if you want to learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, that's the website for the Active Investment Company Alliance.

Thanks to my guest, Kevin Dreyer, he is co-chief investment officer for value at Gabelli, if you want to learn more about the firm and its funds, including Gabelli Equity Trust, go to Gabelli.com, we have the link to GAB in today's show notes. The NAVigator podcast has something new for you every Friday, Thursday because it's a holiday week this week, but plan to join us again next week for more closed-end fund fun. And until then, happy holidays, and happy investing.

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