



20 November 2019

The Manager

ASX Market Announcements

**L1 Long Short Fund Limited – 2019 Annual General Meeting – Investment Manager’s Address**

**Refer to Slide 1 of the IM Presentation**

Good morning everyone and thank you for attending today’s AGM for the L1 Long Short Fund Limited. My name is Mark Landau and I’m the Joint Managing Director & Chief Investment Officer of L1 Capital.

I’m pleased to be able to provide you with a number of positive developments from the past year, along with a detailed overview of the Fund, our current portfolio positioning, how we are seeing markets and a summary of some of our highest conviction ideas. We sincerely appreciate the ongoing support of our shareholders and have made a concerted effort to keep you all informed about how we are managing your portfolio and positioning it for long term success. As a quick reminder, we provide:

- detailed monthly and quarterly investment reports;
- bi-annual national roadshows & investor presentations;
- bi-annual conference calls;
- daily NTA announcements; and
- active engagement with news services such as the AFR, The Australian, Livewire and broker podcasts.

Our team works incredibly hard to uncover some of the best stock opportunities not just from Australia, but globally and we have begun to see that research pay off in 2019. Please bear in mind that we are typically making long term investments – daily NTAs and monthly reporting often focuses investors' on very short-term results, but I would encourage everyone to take a long-term perspective on their shareholding and the underlying stocks we hold. Rafi and I now have the bulk of our wealth invested in LSF shares alongside you and we have voluntarily escrowed a large portion of that investment for 10 years, highlighting the long term commitment and confidence we have in LSF.

On that note, I will now turn to the presentation that was lodged on the ASX this morning.

### **Refer to Slide 2 of the IM Presentation**

Page 2 shows the long-term performance track record across all L1 Capital's unlisted funds. This page is important as it shows that long term investors in L1's products have enjoyed exceptionally strong returns regardless of the Fund or asset class involved. Every L1 fund is among the very best in its class and has comfortably exceeded its investment objectives.



The Long Short Strategy recently passed the 5 year mark and has delivered 20.3% p.a. after fees to investors, delivering an incremental 100 percentage point return beyond that of the ASX200 Accumulation Index. While I acknowledge that shareholders of LSF have not yet had the same positive returns experienced across all other L1 products, I use this slide to highlight that long term investors have been rewarded with strong returns over time.

The Long only Australian Equities Fund launched 12 years ago and has been the best performing large cap Australian equities fund, outperforming the ASX200AI by 5.5% p.a. (gross). This ranking is based on Zenith's recent sector report of June 2019.

It is the same investment team that manages your LSF portfolio that has also managed the long only and long short strategies since inception. There have been no changes to the heads of the Long Short strategy and no departures from the investment team since inception in 2007.

The Global Opportunities Fund, which is run by our team in New York, has returned 25.2% since inception with no negative months since inception. This Fund focuses on convertible debt and structured investments and was a finalist for the EurekaHedge Best Asian Hedge Fund in 2019.

The U.K. Residential Property Fund 1, which launched two years ago, is already delivering a 7.5% net distribution yield to investors and has grown its NTA by 23% despite the headwinds caused by Brexit uncertainty.



Lastly, our newest Fund is the L1 Capital International Fund, which launched earlier this year and is headed up by David Steinthal and his team in Sydney. David was previously the Senior Portfolio Manager for 9 years at the Lowy Family Group and is an exceptional investor. We are very optimistic about the long-term prospects for this Fund.

What you can hopefully see from this slide is that L1 Capital is an 'investment house' with a complete focus on investment excellence. High performing funds, led by talented and highly aligned teams, delivering great outcomes to investors. We are focused and determined to ensure LSF is added to this list of high performing Funds over time.

### **Refer to Slide 3 of the IM Presentation**

On page 3 you can see the investment philosophy that is at the heart of our investment process. We believe that a great investment represents both value and quality. Both factors are critical and of equal importance. Opportunities constantly arise because investors tend to be emotional, short-term and backwards looking. We believe that the best way to uncover these opportunities is by conducting extensive fundamental research with a broad range of stakeholders and analysing that information with an independent mindset. While we listen to company management and brokers, much of our analysis and conclusions are not reliant on their input.

### **Refer to Slide 4 of the IM Presentation**

Page 4 shows a visual summary of our investment philosophy highlighting the need for both value and quality in an attractive investment. We believe value managers risk buying a value trap, if

the business is low quality or faces structural challenges. Equally, a growth manager may buy a very high quality business, but it may prove to be a bad investment if it simply overpays for that set of future cashflows. Given how expensive high quality stocks are trading at the moment, we are finding our portfolio has a greater than usual skew towards value attributes, which we believe is appropriate and sensible in the current environment.

### **Refer to Slide 5 of the IM Presentation**

Our investment philosophy feeds into our investment process, where we assess value based on expected future cashflows (not accounting earnings, which are often intentionally distorted to overstate or understate the true operating performance of a company) and quality – which we define as management, industry structure and trends. Lastly, we assess the balance sheet to consider the risk to equity holders from gearing levels, debt covenants, etc.

Hopefully, that provides you with a better understanding of our investment approach and how we determine which stocks to invest in.

### **Refer to Slide 6 of the IM Presentation**

Turning to the Company's performance for 2019. The Company has performed very strongly in 2019, delivering a net return of 23% up until 8 November. The Fund has achieved positive returns in 9 of the past 10 months and there has been a pleasing positive inflection in performance after a very disappointing start last year.

The performance we have delivered this year has been particularly satisfying as the Fund has typically maintained a 50-60% net long and has faced a constant headwind from the enormous outperformance of growth stocks over value stocks (which has only ceased in the last couple months). Furthermore, the performance has been delivered without any benefit from the rally in iron ore stocks or yield stocks, which have led the ASX200 higher. The Fund's strong performance is a testament to the stock picking skills of the team, which bodes well in the event we see a market more focused on business fundamentals, such as cashflows, P/E multiples (not price to sales) and balance sheet strength.

### **Refer to Slide 7 of the IM Presentation**

During 2019, we have seen the pre-tax NTA increase by 23%, with the share price also rising 23%. On August 20, the board announced that Rafi Lamm and I would be buying a minimum of \$25m of shares on market. Since that time, we have seen the share price increase from \$1.36 to \$1.66 as at 8 November 2019 and the discount has reduced from 18% to 8%. This discount is now broadly in-line with the wider LIC sector, but we and the board are very focused on mechanisms to close the discount further. The response to the share purchase program from our shareholders has been extremely positive and we appreciate all your feedback.

### **Refer to Slide 8 of the IM Presentation**

Tuning to page 8. Investment markets are at a very interesting juncture. We believe markets look expensive in absolute terms, but cheap relative to other asset classes, such as bonds and property. The macro and geopolitical backdrop remains uncertain due to the Trade War, Brexit and Central bank policies, however recent developments on all of these fronts are encouraging.



We continue to believe that the collapse in bond yields during 2019 has led to extreme crowding in yield stocks and growth stocks. We believe these sectors now carry the most risk as everyone is essentially hiding in the same positions. We have begun to see an unwind of this excessive positioning in recent weeks, although we believe a much larger shift is possible if leading economic indicators continue to show improvement.

### **Refer to Slide 9 of the IM Presentation**

At present, the portfolio has only a modest net long to each geographic region – we believe Australia and the U.S. are relatively safer environments in the short term, but these markets appear fully priced. Conversely, Europe and Asia looks very cheap, however each of these regions has clear tail risk that is difficult to forecast with any certainty.

### **Refer to Slide 10 of the IM Presentation**

Markets are currently at an historic extreme in terms of the overvaluation of growth/momentum stocks versus value stocks. In the words of Marko Kolanovic, JP Morgan's top-rated Global Head of Quant & Derivatives Strategy, "The underperformance of value stocks relative to low volatility and momentum stocks is worse than any historical factor divergence, including during the late 90's tech bubble". Accordingly, we believe that from both a risk and return perspective, we are positioning the portfolio sensibly by having a clear bias to value stocks and cyclicals, which are by far the most beaten up and undervalued part of the market.

**Refer to Slide 11 of the IM Presentation**

Page 11 shows the portfolio metrics for our long and short portfolio. As you can see, our longs are expected to deliver similar earnings growth as our shorts, yet our longs typically trade at an average 10 P/E points lower and are generating 50% more free cash flow than our shorts.

**Refer to Slide 12 of the IM Presentation**

Turning to some of our key portfolio positions...

Chorus remains a high conviction, long term investment for the Fund. Chorus owns the monopoly high-speed fibre network across most of New Zealand and owns 100% of the legacy copper network. We first invested in Chorus on day 1 of the Long Short Strategy back in September 2014 at \$1.60 a share. Today, Chorus trades at around \$5 a share and we believe Chorus has the potential to double again on the back of a sharply rising free cash flow profile over the coming years. Chorus is now coming to the end of its fibre rollout and as its growth capex ends, we expect to see a large increase in the free cash flow available to shareholders in the form of dividends. This process will take a few years to play out, but it is a relatively predictable event, given Chorus' fibre capex peaked last year and the rollout contract is on a fixed price basis. Chorus is a high quality, monopoly infrastructure business, with an undergeared balance sheet and a strongly rising dividend outlook. We ask our investors to stay patient with this investment, as we believe the large payoffs will occur over a few years, not a few months.



**Refer to Slide 13 of the IM Presentation**

CK Hutchison is a large HK-listed company that owns some of the world's best infrastructure assets, including 51 ports, US\$40b of U.S. power infrastructure assets, a huge telco and towers business in Europe along with Watsons, the largest and fastest growing pharmacy chain in China. CK Hutchison trades on a P/E of 7x, offering 8% EPS growth, a 5% dividend yield with a very undergeared balance sheet. Amazingly, CK Hutchison generated a 16% free cash flow yield last year and we expect that to rise to almost 20% in 2020.

**Refer to Slide 14 of the IM Presentation**

News Corp is a media and digital real estate conglomerate that owns 61.6% of REA, along with iconic assets, such as the WSJ, Dow Jones, HarperCollins, Foxtel and Realtor.com (the number 2 property portal in America). News Corp is about to undertake a strategic review, which may result in a major restructure or series of asset sales that would serve to highlight the enormous undervaluation of the business. News Corp's stake in REA plus the cash on the balance sheet equals almost the entire market cap of News Corp. On top of that News Corp owns numerous other substantial assets globally that deliver combined earnings of over \$1b (after deducting group overhead). Even using an ultra-conservative valuation of 5x EBITDA for these assets would result in 50% upside to the current share price.

**Refer to Slide 15 of the IM Presentation**

Worley is one of the world's leading energy, chemicals and resources engineering consulting firms with 60,000 employees globally. We believe Worley is currently trading on a bottom of cycle

P/E on bottom of cycle earnings. The world's oil majors are about to undergo a multi-year increase of their project capex for the first time since 2013. This is required to simply maintain, let alone grow production volumes. Today, Worley trades on a P/E of only 12x FY21 (which is the first full year of synergies from their recent Jacobs ECR acquisition), with double-digit earnings growth likely going forward. We also take comfort from the fact that the Founder and former CEO of Worley, John Grill, recently increased his stake by \$100m at the time of the ECR transaction.

### **Refer to Slide 16 of the IM Presentation**

Qantas is the dominant airline company in Australia that has transformed itself into a high returning and highly cash generative business. As you can see on the chart on the bottom-left of page 16, Qantas has attained complete dominance over Virgin, across both its Qantas and Jetstar brands. Despite trading on a P/E of only 11x, we believe Qantas has a very positive outlook given our expectation of rising domestic profitability in FY21, ongoing structural growth in its loyalty division and a recovery from capacity dumping on some of its key international routes.

### **Refer to Slide 17 of the IM Presentation**

Tempur Sealy is the world's largest bedding company. For a sleepy company (pardon the pun), Tempur is achieving some incredible growth rates. Over the past year, management have launched a series of exceptional new products that are winning market share and driving EPS growth of more than 25%. We expect this EPS growth to continue into 2020, given management have recently signed up the largest bedding retailer in the U.S. (Mattress Firm), along with one of the Europe's largest, Beter Beds. Tempur's main competitor Serta Simmons is on the verge of bankruptcy, which could drive a further leg of growth and market share gains in the years ahead.

Tempur trades on a P/E of 16x with an under-gearred balance sheet and an active on-market buyback program.

We have also included a number of slides in the appendices, that shows the long term performance track record and attribution of the Long Short Strategy since inception in 2014. We trust that helps show the high quality of returns our team has delivered over time:

- across all sectors;
- both long and short;
- in large and small caps;
- in Australia and offshore; and
- in both rising and falling markets

There are few (if any) long short investment managers in Australia that have delivered such a high-quality set of returns across all of these attributes.

### **Refer to Slide 18 of the IM Presentation**

That concludes my presentation. Thank you all for your interest and support of LSF and I look forward to answering any questions you may have.

**ENDS**



L1 CAPITAL

# L1 Long Short Fund Limited Investment Manager's Presentation

November 2019



# Strong long-term performance across all L1 Capital Funds



L1 CAPITAL

Launched  
Sep 2014

## Long Short Fund (Strategy)

- **20.3% net return p.a. since inception (5 years)<sup>1</sup>**
- **160.2% cumulative fund return versus 48.4% for ASX200AI<sup>1</sup>**
- LSF:ASX since inception -9.5% (pre-tax NTA \$1.81)<sup>2</sup>

### ZENITH AWARD

Long Short: Best 'Australian Equities – Alternative Strategies' 2017.

Launched  
Aug 2007

## Australian Equities Fund (Long only)

- **Best performing Large Cap Australian Equities Fund since launch (#1 out of 81 funds) – Zenith, June 2019<sup>3</sup>**
- **Outperformed the ASX200AI Index by 5.5% p.a. (gross)**

### HSBC SURVEY

Long Short: Best Performing Hedge Fund Globally' in 2015 and 'Top 20 Globally' in 2016, 2017

Launched  
June 2015

## Global Opportunities Fund (New York)

- **25.2% net return p.a. since inception**
- No negative months since inception

### EUREKAHEDGE

Long Short: Winner 'Best Asian Long/Short Equity Fund' in 2017

Launched  
Aug 2017

## U.K. Residential Property Fund (London)

- **Fund 1 achieving a 7.5% net distribution yield to investors**
- Strong capital growth (+23%) despite Brexit uncertainty

### ZENITH RATING

Aust Eq Fund: Zenith 'Highly Recommended'

Launched  
Mar 2019

## International Fund (Sydney)

- Long only International Equities Fund
- Outperformed MSCI World since launch (7 months)

### HSBC SURVEY

GOF: 'Top 20 Hedge Fund Globally' in 2017, 2018<sup>3</sup>

*Note: Performance data current as at 31 October 2019. 1. L1 Capital Long Short Fund – Monthly Class since inception (1 Sep 2014). 2. LSF:ASX pre-tax NTA movement from IPO 24 April 2018 to 8 Nov 2019. 3. Zenith Aus Eq Fund Report - 20 June 2019. 4. Fund ranking based on HSBC Global Hedge Fund Performance Survey (Dec 2018). Past performance should not be taken as an indicator of future performance.*



## We hold 3 core beliefs:

01

Valuation and qualitative factors are the key drivers of long term share price performance.

Both factors are critical and of equal importance.

02

Markets tend to be emotional, short-term and backward looking.

Markets continually present opportunities to investors who are objective and long term in their assessment of business potential.

03

An intensive visitation schedule with a wide variety of stakeholders can provide a more complete assessment of a company's prospects.

Successful bottom-up investing requires extensive research and an independent thought process.

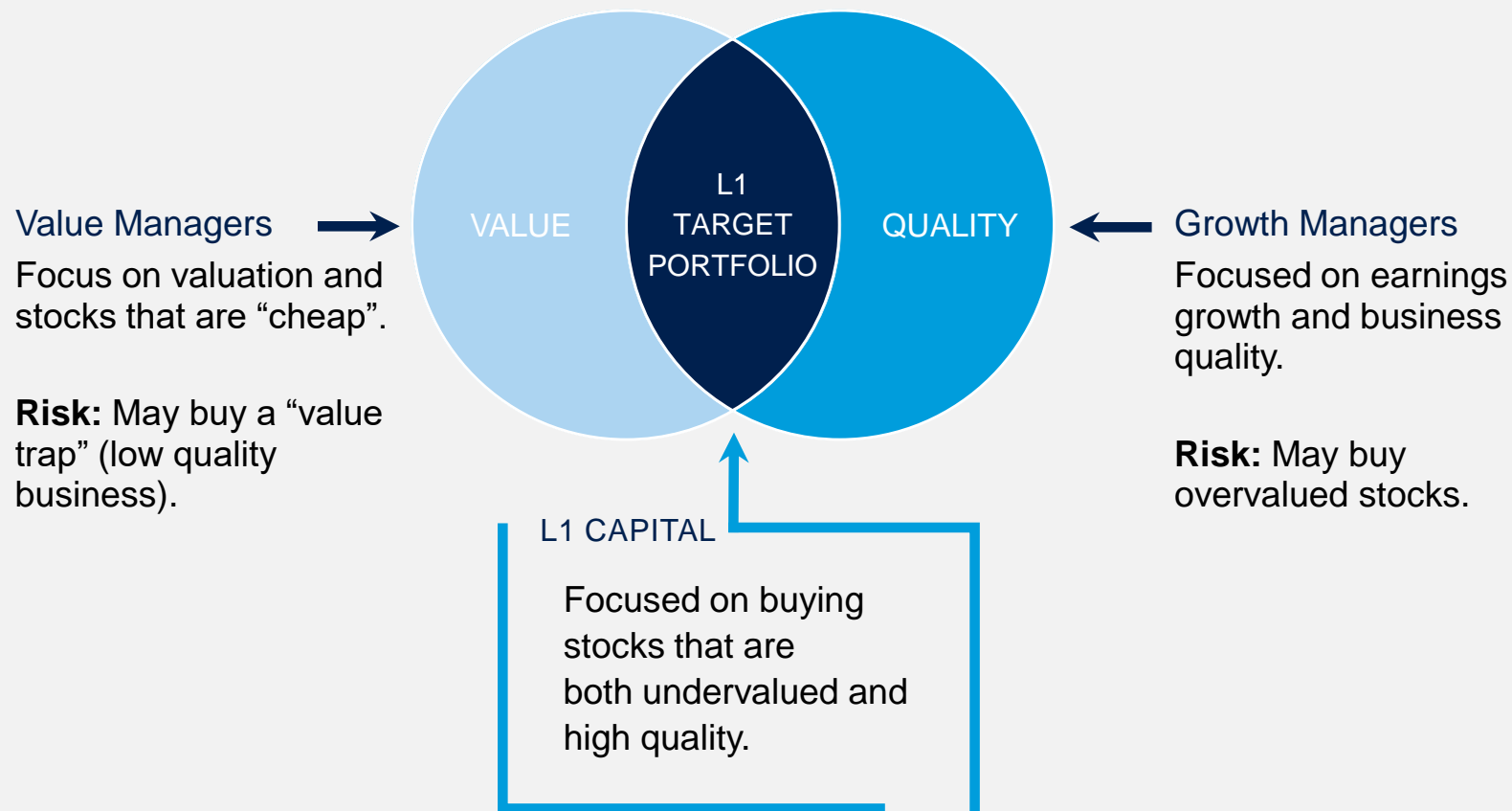


# Investment Philosophy



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Value (50%) + Quality (50%) = Investment appeal





We invest in high quality businesses trading well below their valuation:

VALUE  
50%

+

QUALITY  
50%

## Valuation

- DCF, Historical & Peer Multiples, Sum of Parts

Upside / Downside  
to share price

## Management

- Broad evaluation of entire organization – not just CEO/CFO
- Senior management, divisional heads, board, culture
- Incentives structures & capital allocation track record

Each qualitative  
factor is equally  
weighted.

## Industry Structure

- Growth outlook, barriers to entry, rivals/substitutes, competitive intensity
- Long term ROE & growth outlook

Scored from 1 to 5  
(excellent to poor)

## Trends

- Supply/Demand, asset utilisation, regulation, innovation, consolidation
- Counter-cyclical & forward-looking (1-2 year assessment)

## Gearing (pass or fail)

- Balance sheet risk - debt covenants, debt rollovers, etc



## **The Fund has delivered strong performance in 2019 (+23%)<sup>1</sup>**

- These returns have been achieved despite:
  - maintaining a modest net long position (typically 50-60%)
  - the continued huge outperformance of ‘growth’ versus ‘value’ stocks
  - no portfolio benefit from the surge in yield stocks
  - no portfolio benefit from the spike in iron ore stocks

## **Stock picking based on detailed fundamental research has been the key driver of returns**

### **Longs:**

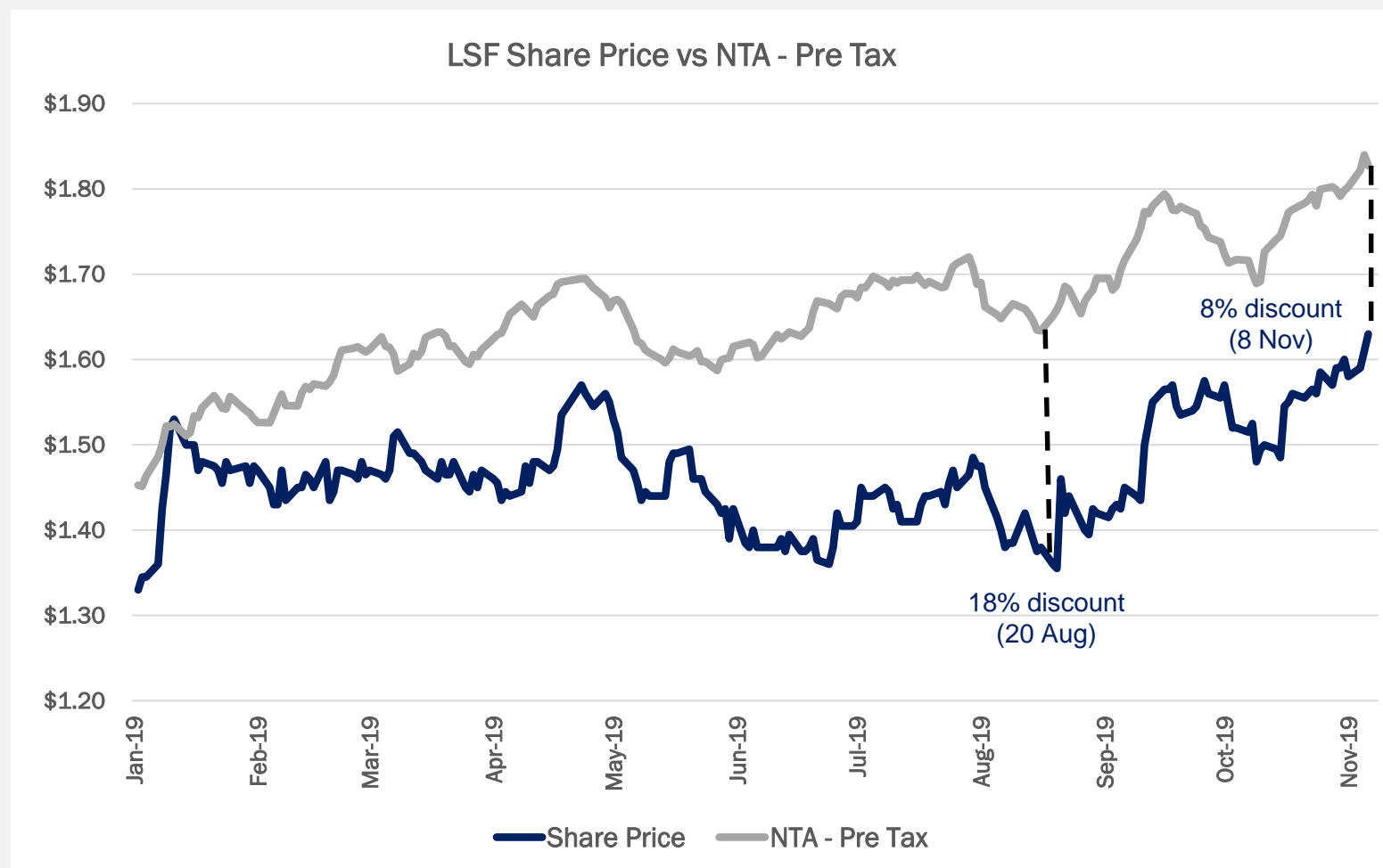
- The portfolio’s long positions performed very strongly and was the main driver of returns.
- The vast majority of long positions in the fund performed better or in-line with consensus expectations during profit reporting season.

### **Shorts:**

- Majority of stocks shorted underperformed the market, often due to weak results/outlooks that highlighted fundamental issues with the business. Very pleasing performance considering the strong equity market.

Note: 1. Performance data current as at 8 November 2019. Past performance should not be taken as an indicator of future performance

# LSF Share Price vs NTA (2019)



Note: Data current as at 8 November 2019. Past performance should not be taken as an indicator of future performance



- **Equity markets look expensive in absolute terms, but attractive relative to other asset classes.**
- The outlook for the global economy is uncertain due to a number of macro/geopolitical factors:
  - Trade war, Brexit, Central bank policies, European political/banking system, Australian housing market & credit availability
- Economic indicators are deteriorating, which has seen huge investment flows into defensive assets.
- **The collapse in bond yields this year has caused market positioning to become extreme in yield stocks & growth stocks. We believe these sectors now carry the most risk as ‘everyone is sitting on the same side of the boat’**
- Gold remains attractive over the medium term (but believe the sector is overbought in the short term). Gold has favourable supply/demand dynamics and is a clear beneficiary of central bank actions & potential currency wars

	Net Exposure	Gross Exposure
Australia/New Zealand	17%	163%
North America	20%	37%
Europe	13%	13%
Asia	8%	13%
Total	57%	227%

- The Fund does not have a large net long to any geography, reflecting risk from full valuations (Australia & U.S.) or risk from structural imbalances (Europe & HK/China)
- The net long remains in-line with its long term average (around 60%)
- Strong relative valuation appeal of equities, offset by tail risk from macro/geopolitical events
- We will continue to manage portfolio exposure based on our assessment of market risk and valuation support.

*All data current as at 31 October, 2019.*

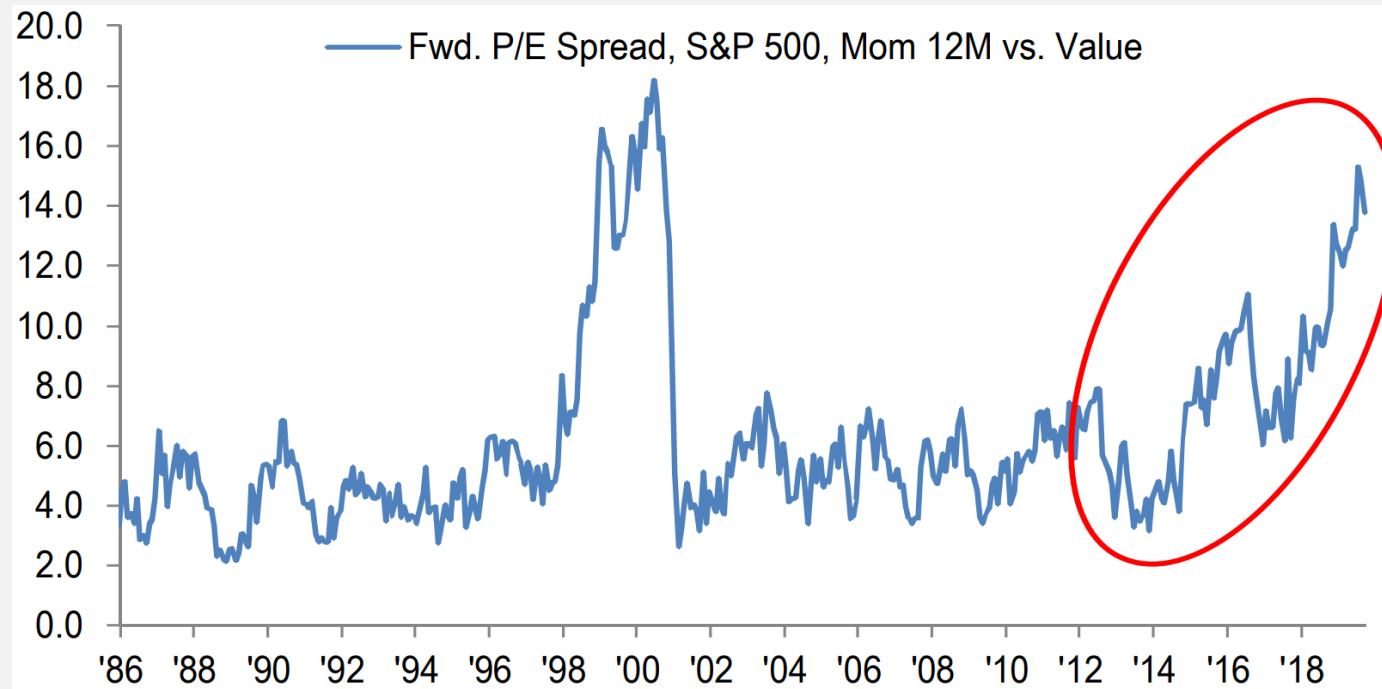


## Momentum vs Value Stocks



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Momentum stocks look extremely overbought relative to value stocks



***“The underperformance of value stocks relative to low volatility and momentum stocks is worse than any historical factor divergence, including during the late '90s tech bubble”***

*— Marko Kolanovic (JP Morgan Global Head of Quantitative & Derivatives Strategy)*

Source: JP Morgan

Given the extreme relative valuations between growth & value stocks, the portfolio is intentionally positioned with a larger value bias than usual. We believe this is prudent from both a portfolio risk and return perspective.

Portfolio Metrics (Median)	P/E (x) 2020	EV/EBITDA (x) 2020	FCF Yield (%) 2020	EPS Growth (Avg % 19-21)	P/Book (x) 2019
Long Portfolio	13.7x	6.5x	7.7%	9%	1.4
Short Portfolio	19.5x	10.1x	5.0%	8%	3.3

- **The long portfolio has more attractive valuation metrics across the board compared to the short portfolio**
- Using broker forecasts, the longs and shorts are expected to grow earnings at a similar rate (8-9% p.a.).
- Using the mean (instead of the median) shows an even greater P/E divergence (Long 15.9x v Short 26.4x). This also flatters the short portfolio as it excludes several shorts that have negative earnings.
- Importantly, the ‘value’ longs are not stagnant or structurally challenged businesses (avg 9% EPS growth).
- **Over time, we believe the superior cashflows of the longs versus the shorts will deliver attractive returns to shareholders.**

***“In the short run the market is a voting machine, but in the long run it is a weighing machine”***

– Benjamin Graham

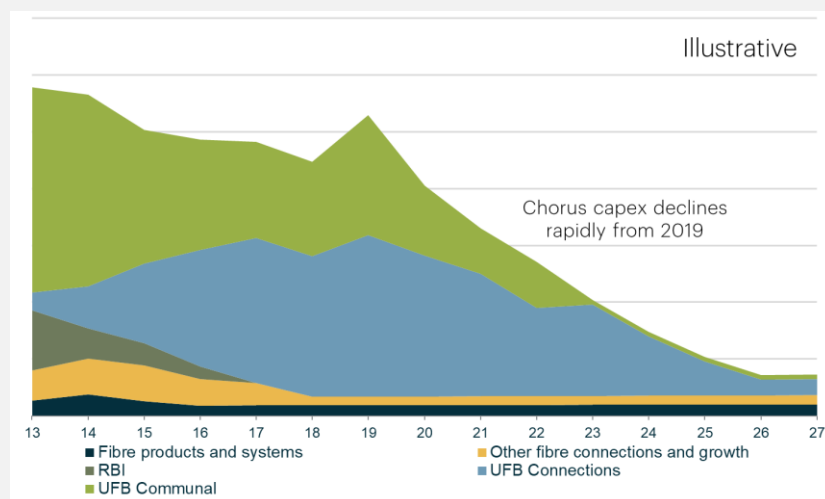
*Note: All data current as at 8 November, 2019. Financial metrics are based on Bloomberg consensus forecasts, rather than L1 estimates.*

## L1 Key Long Portfolio Position – Chorus (CNU)

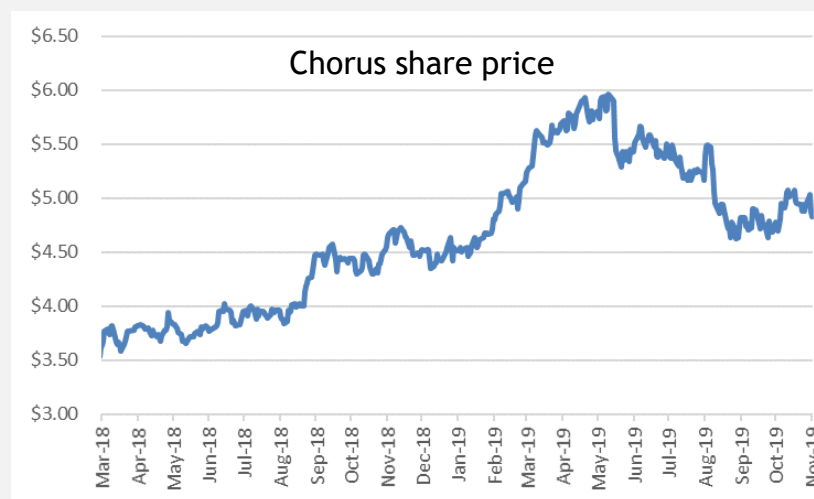


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- **Chorus has been one of the largest positions in the Long Short Strategy since inception in Sept 2014.**
- Chorus is the monopoly owner of the new ultra-fast fibre network across most of New Zealand (81%) and also owns 100% of the monopoly copper network. Chorus has spent 10 years and NZ\$6b building one of the world's best & fastest fibre networks (more than 10 times faster than Australia's NBN).
- **The fibre build has been consuming all of Chorus' cashflow for many years and has prevented the company from paying out its true underlying earnings in dividends. Now that the capex on fibre build is ending, shareholders should finally see the benefits of this huge investment. A \$6b+ investment in the context of a ~\$2b market cap company.**
- New legislation will make Chorus' fibre asset a regulated monopoly, which will deliver more reliable earnings.
- Moody's placed Chorus on credit rating upgrade watch and flagged comfort with higher gearing levels.
- **We believe Chorus is very undervalued and expect dividend growth to accelerate over the next 3-5 years.**
- Current dividend yield 4.7% (FY20).



Source: L1 Capital estimates



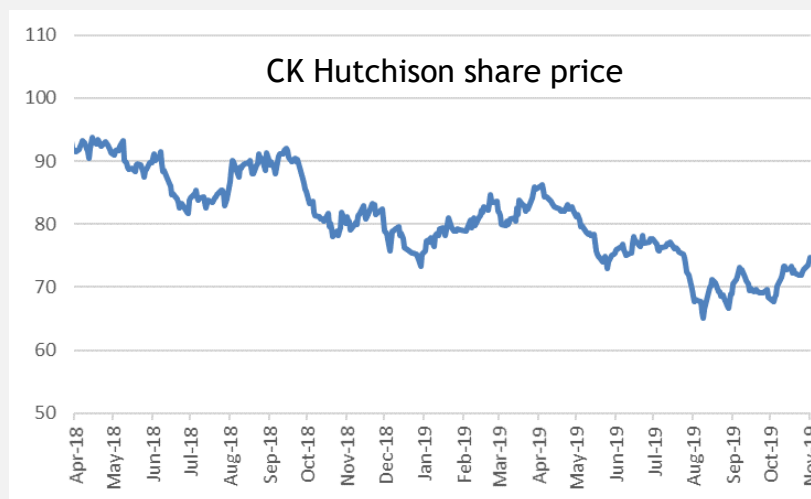
## Key Long Portfolio Position – CK Hutchison (1.HK)



- CK Hutchison – HK Listed (US\$38b market cap)
- Extremely high quality set of assets - US\$40b+ of U.S. infrastructure assets, 51 ports, largest and fastest growing China pharmacy chain, large European telco & towers infrastructure, global energy assets.
- Majority of assets have very attractive industry structures, high barriers to entry and excellent cashflows.
- **Shares have recently sold off due to HK protests despite owning no meaningful assets in HK**
- **Conservative valuation is more than double the current share price.**
- P/E of 7x (FY20), 18% free cash flow yield, 8% EPS growth, under-geared balance sheet.
- **CK Hutchison will generate more than half its market cap in free cash flow in the next 3 years.**
- CEO has been a large buyer of stock on market recently
- 5% dividend yield (35% payout ratio), with the potential to deliver 10%+ compound growth in dividends for many years to come.
- Potential positive catalyst from sell-down of part of European tower assets (decision likely around year end) and potential move to a higher dividend payout ratio

CK Hutchison	Metric (FY20)
P/E	7x
Free Cash Flow Yield	18%
Dividend Yield	5%
EPS Growth (p.a)	8%
Gearing	25%

Source: Bloomberg



Source: Bloomberg



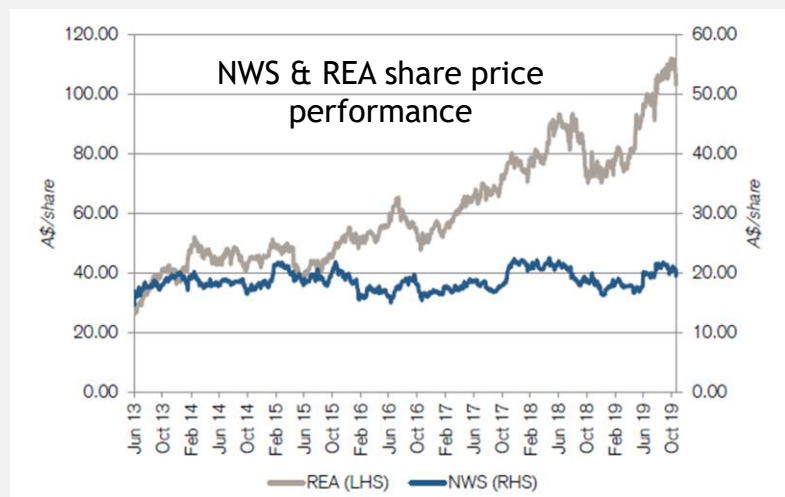


## Key Long Portfolio Position – News Corp (NWS)



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- NWS is dual-listed (ASX/NYSE) (Mkt Cap A\$10.9b/US\$7.5b).
- **NWS' 61.6% stake in REA (A\$8.3b) + A\$2b net cash = A\$10.3b (almost the entire NWS market cap).**
- **However, NWS also owns numerous large media, publishing & digital real estate assets globally that generate over \$1b of earnings that are currently valued at almost zero.**
- **Our analysis suggests there is 50-100%+ upside or NWS shareholders under a restructure scenario.**
- The Wall Street Journal alone is worth at least US\$4b (~50% of NWS market cap) using equivalent multiples to publicly listed peers, such as the NY Times (which trades at more than 20x EBITDA).
- Enormous cash position (~20% of market cap) could be deployed on accretive acquisitions or capital management.
- Tracey Fellows (ex REA CEO) was recently appointed Global Head of Digital Real Estate for NWS which may signal a potential spin out or restructure of REA & Move, which would be a major positive catalyst.
- **NWS CEO recently stated “We are acutely focused on simplifying the structure of the company and making clear the full value of the sum of our parts”.**



Source: Bloomberg. Data current as at 8 November, 2019.



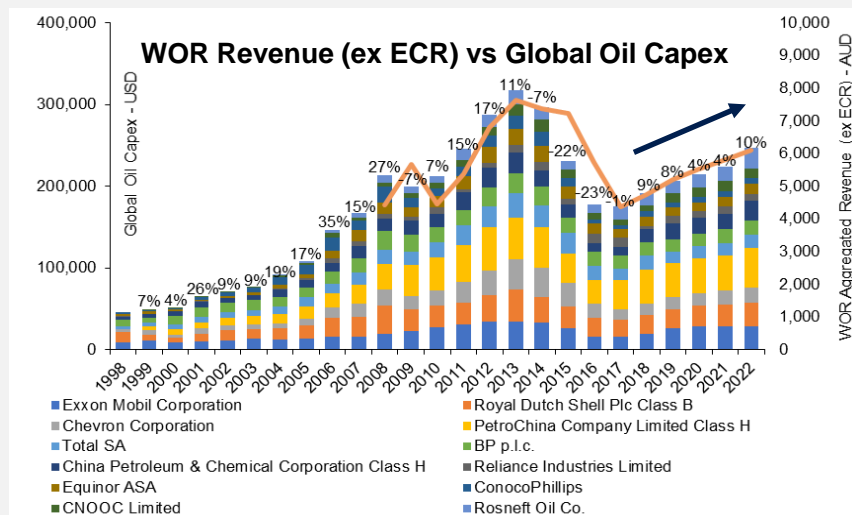
Source: Bloomberg

# Key Long Portfolio Position – Worley (WOR)



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- Worley is a leading global oil services company. It recently acquired the Energy, Chemicals & Resources (“ECR”) division of U.S. peer Jacobs, resulting in a near-doubling of its revenue and earnings.
- WOR shares fell from around \$19 to \$11 late last year due to indigestion from the equity raising associated with the deal and concerns about falling demand for new energy projects (due to a 40% fall in the oil price in the December quarter).
- We built a position in late 2018, taking advantage of the excessive negative sentiment.
- We believe consensus earnings are too low due to the complexity of consolidating the ECR accounts into the combined business. In our view, Worley is now trading on a P/E of only 12x FY21 (once the synergies from the Jacobs acquisition flow through).** The shares had been trading on 20x P/E in September 2018 (prior to the oil price fall and ECR transaction).
- Worley deserves to trade at a much higher multiple, given the synergy benefits from the ECR deal and the structural growth in demand for their services as upstream capex spending recovers.
- Worley founder (and ex-CEO), John Grill, personally invested an incremental \$100m in WOR at the time of the deal signalling his confidence in the merits of the deal and the outlook for the business.



Source: Macquarie Research estimates, Factset



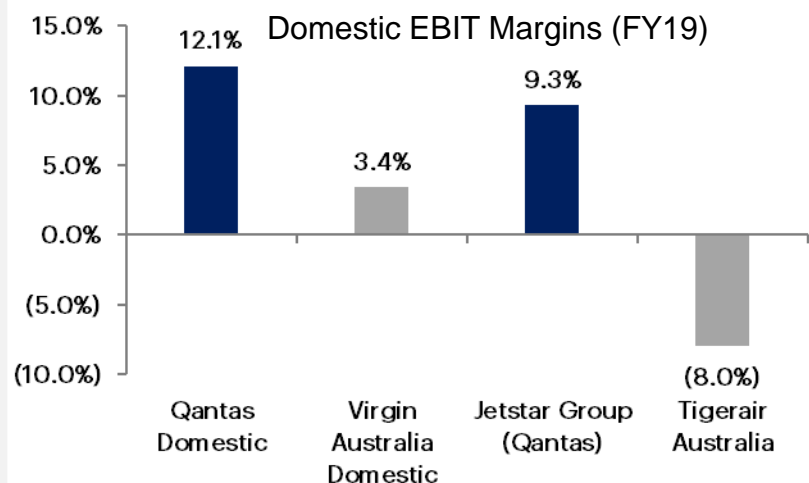
Source: Bloomberg

## Key Long Portfolio Position – Qantas (QAN)

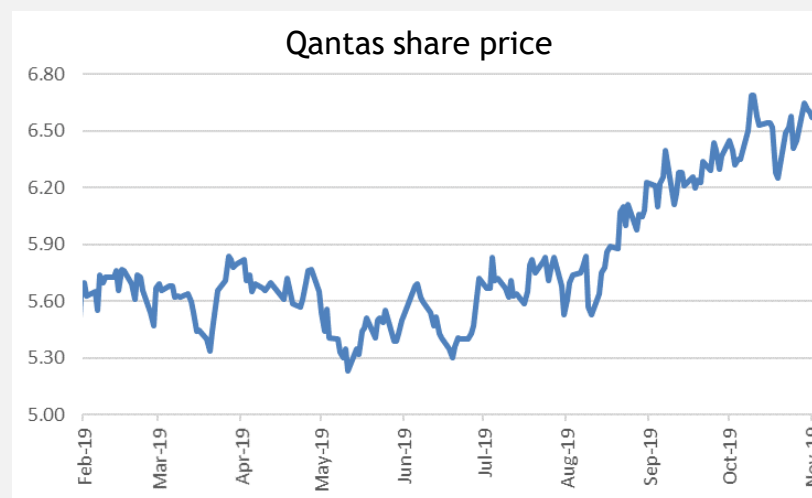


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- Qantas owns Australia's dominant full service and low-cost airlines, and Australia's most successful loyalty program.
- Exceptional management team and board that has delivered for all stakeholders.
- Strong cashflows (8-10% free cash flow yield) and return on capital (18% ROIC).
- **Qantas has bought back 32% of shares on issue in past 4 years – the most of any ASX100 company.**
- Domestic business is dominant and delivers superior margins and returns than Virgin (see chart below).
- Tiger is now losing money on many routes and will be forced to withdraw capacity over the coming year. Further entrenches Qantas/Jetstar dominance.
- International business performing well – Airfares recovering, Perth-London performing well.
- Project Sunrise – High margin opportunity (Direct flights: Melb/Syd to New York & Melb/Syd to London).
- **Loyalty business (30% of group EBIT) set to continue growing earnings by 7-10% p.a.**
- **Shares trade on a P/E of 11x with a growing EPS profile, div yield 4% (fully franked) + off-market buyback program.**



Source: Company data.



Source: Bloomberg

## Key Long Portfolio Position – Tempur Sealy (TPX)

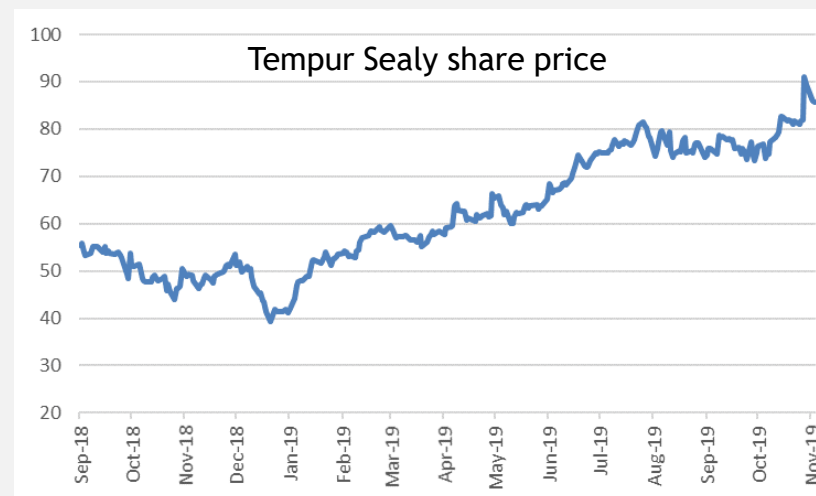


L1 CAPITAL

- Tempur Sealy is the world's largest bedding provider (NYSE listed - Market cap US\$4.6b).
- Outstanding management team that has invested heavily in product innovation, improved 3rd party distribution and physical store network.
- Recently announced a major distribution deal with America's largest bedding retailer (Mattress Firm) and Beter Beds (largest bedding retailer in Germany and Netherlands).
- Direct U.S sales (from company-owned stores) growing at 55% p.a.
- Gross margins rising due to popular new product range, improving sales mix, increasing scale benefits and easing input cost pressures.
- Main competitor, Serta Simmons, is struggling to survive, due to large market share losses, little product innovation & huge debt load.
- TPX has de-gearred and recently announced a US\$200m on-market share buyback.
- Underappreciated, long term growth opportunity in China.
- TPX recently upgraded 2019 earnings guidance. EBITDA & EPS set to rise 24% & 45% respectively in FY20.

Tempur Sealy	FY18-21 CAGR (p.a.)
Revenue growth	11%
EBITDA growth	16%
EPS growth	30%
P/E (FY20)	16x

Source: Bloomberg Broker Consensus Data



Source: Bloomberg



L1 CAPITAL

# Appendices



## Monthly Performance

(Since Inception of Long Short Strategy)



**L1 CAPITAL**

In the table below, we show the full performance history (net of fees) of the L1 Long Short Strategy since inception on 1 September 2014.

### Long Short Strategy Performance (Net %)

Period	Jan	Feb	Mar	Apr*	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-	-	-	-	-	-	-	-	(2.42)	3.03	2.85	1.61	5.17
2015	0.59	9.14	2.42	1.71	3.73	(0.86)	3.30	2.06	5.51	8.49	8.11	4.62	60.52
2016	5.81	0.59	5.47	2.46	2.78	(0.89)	3.22	3.92	0.46	(0.13)	0.55	2.22	29.61
2017	2.51	1.87	3.15	1.03	4.18	1.70	2.62	1.69	1.93	2.54	0.89	3.56	31.40
2018*	0.56	(0.47)	(1.64)	(1.32)*	(4.05)	(5.97)	1.02	(5.34)	(2.04)	(3.92)	(2.60)	(5.95)	(27.74)
2019	4.26	5.11	0.17	3.04	(2.73)	3.84	0.65	0.40	2.61	3.46			22.49

\* In the table above, we show the full performance history (net of fees) of the L1 Long Short Limited since inception (LSF:ASX IPO on 24 April 2018). Performance prior to this date is that of the L1 Long Short Fund – Monthly Class since inception (1 September 2014). Past performance should not be taken as an indicator of future performance.

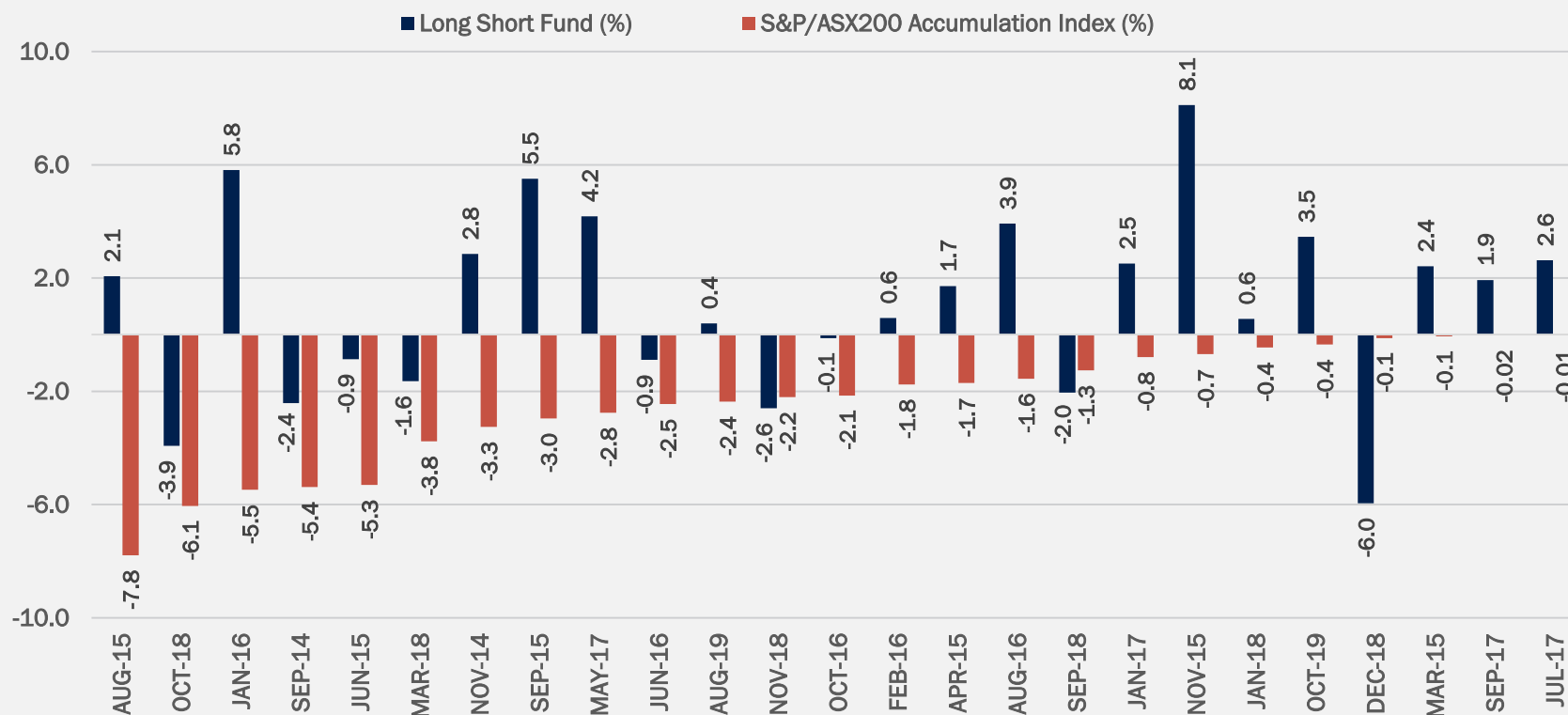


# Downside Protection During Down Markets (Since Inception of Long Short Strategy)



L1 CAPITAL

In the 25 months that the market fell, the Fund returned +28% (vs ASX200AI -61%)



- Exceptional downside protection in falling markets
- Outperformance in 22 of 25 market sells offs (88%)

*In the table above, we show the full performance history (net of fees) of the L1 Long Short Limited since inception (LSF:ASX IPO on 24 April 2018). Performance prior to this date is that of the L1 Long Short Fund – Monthly Class since inception (1 September 2014). Past performance should not be taken as an indicator of future performance.*



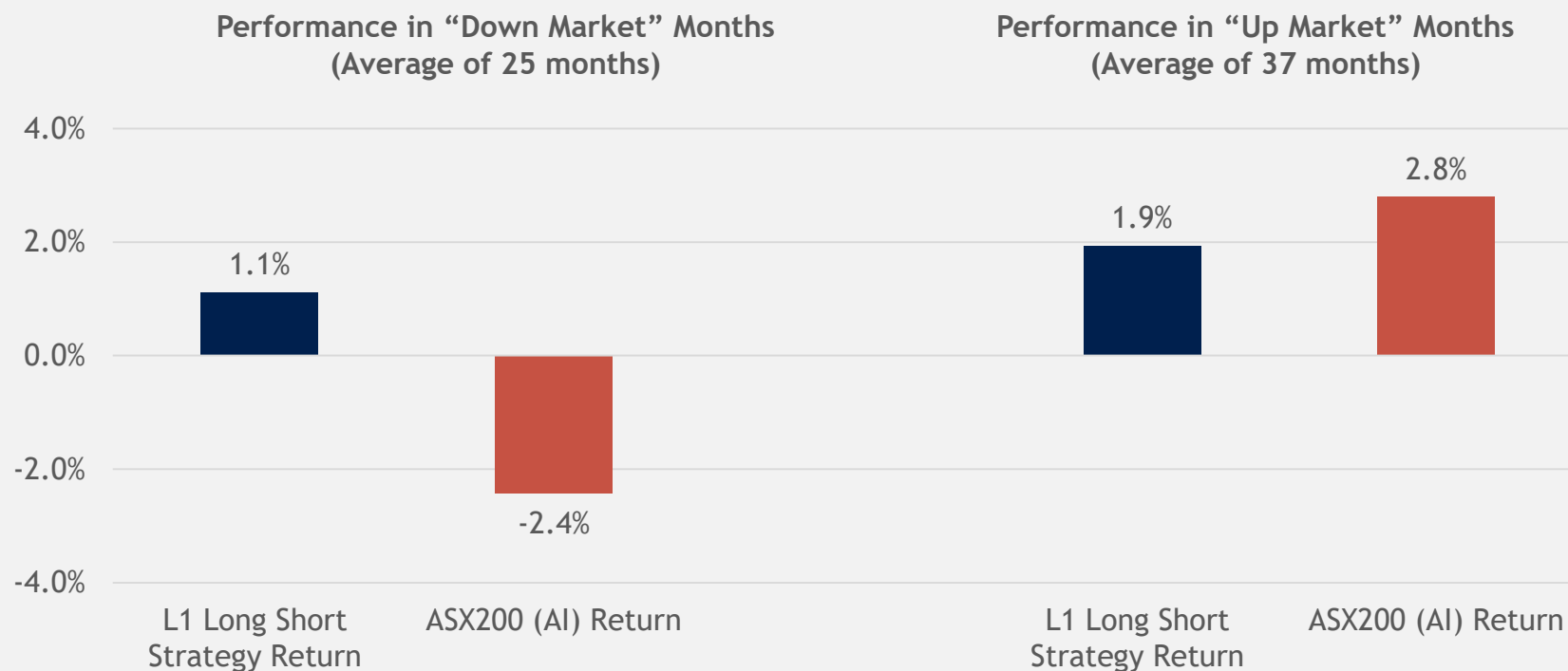


## Positive Returns in Rising and Falling Markets (Since Inception of Long Short Strategy)



L1 CAPITAL

One of the only Long Short Funds in Australia to deliver positive returns in both rising and falling markets



*The L1 Long Short Strategy returns are those of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). All figures are net returns as at 31 October, 2019. Past performance should not be taken as an indicator of future performance.*





# Return Analysis

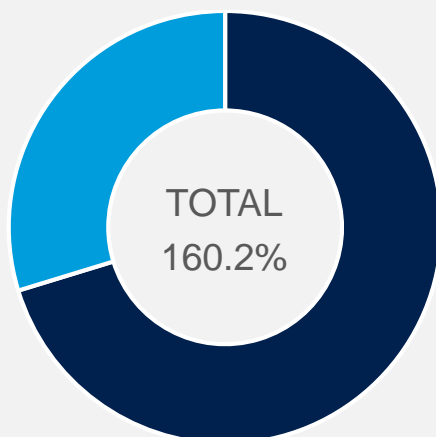
(Since Inception of Long Short Strategy)



L1 CAPITAL

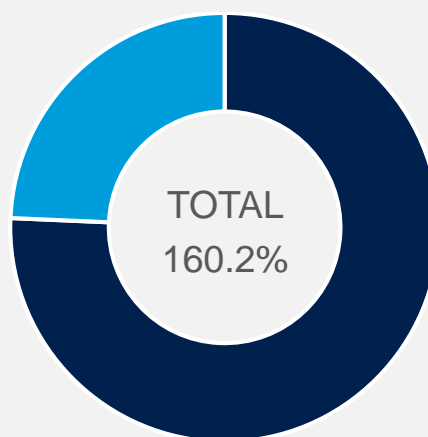
Strong positive returns across all market caps, regions & position type

Market Cap



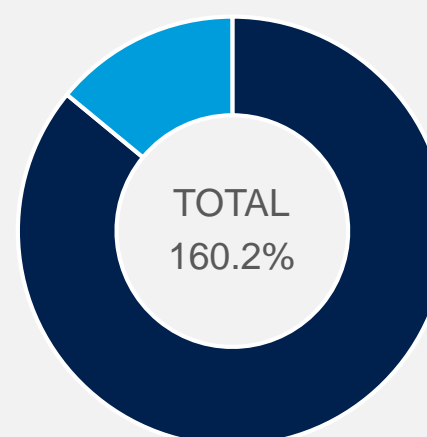
- Over \$1b 107.8%
- Sub \$1b 52.4%

Region



- Australia 131.8%
- International 28.4%

Position



- Long 144.6%
- Short 15.5%

*The L1 Long Short Strategy returns are those of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). All figures are net returns as at 31 October, 2019. Past performance should not be taken as an indicator of future performance.*

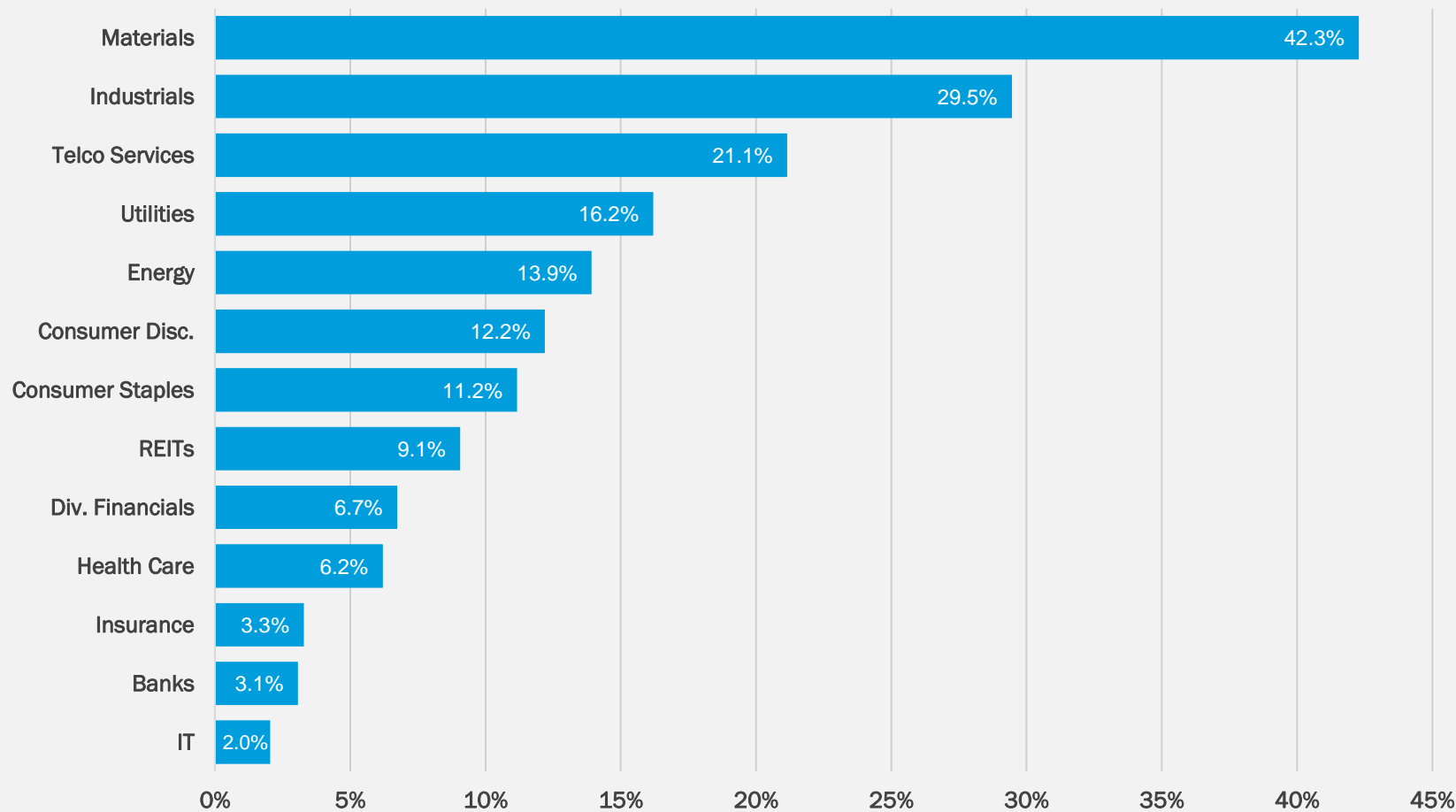


## Sector Contribution (Since Inception of Long Short Strategy)



L1 CAPITAL

### Strong positive returns across every sector



*The L1 Long Short Strategy returns are those of the L1 Capital Long Short Fund – Monthly Class since inception (1 September 2014). All figures are net returns as at 31 October, 2019. Past performance should not be taken as an indicator of future performance.*



## Investor Relations

Wayne Murray

Phone + 61 3 9286 7008

Email [wmurray@L1.com.au](mailto:wmurray@L1.com.au)



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**L1 CAPITAL**

ABN 21 125 378 145 | AFSL 314 302

Level 28, 101 Collins Street  
Melbourne Victoria 3000 Australia

Phone +61 3 9286 7000

Fax +61 3 9286 7099

Web [L1.com.au](http://L1.com.au)