



EAST 72 HOLDINGS LIMITED

PRESENTATION TO 2019 ANNUAL GENERAL MEETING

15 NOVEMBER 2019

ANDREW BROWN

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Risks

E72 uses significant levels of financial and synthetic derivative debt within its operations. As a consequence, an investment in E72 involves significantly higher levels of risk than a conventional equity investment company. Readers are referred to the Company’s web-site: www.east72.com.au/about-us or the Notice of Meeting dated 21 August 2017 for a more fulsome description of the risks inherent within E72.

TODAY'S DISCUSSION

What's happened over the past twelve months?

Apple as a microcosm of the equity market

Cautious positioning & our index hedges

Current largest positions

Gowing Brothers: North Coast NSW focus

Tesla: At this price, it must be a hell of a car company

10 key takeaways

WHAT HAPPENED TO OUR LARGEST EXPOSURES A YEAR AGO*

STOCK	POSN	%Δ
EXOR SpA	2.80%	+37%
Virtu Financial	2.77%	-28%
Australian Rural Capital	2.71%	-49%
Yellow Brick Road	2.57%	-11%
Associated Capital Group	2.52%	SOLD
PM Capital Global Opp. Fund	2.45%	-3%
AerCap Holdings	2.21%	+16%
Alphabet	2.10%	+17%
Gowing Brothers	2.07%	-15%
IDT Australia	2.03%	SOLD
Apple	-1.99%	B-BACK
Tesla	-4.16%	-7%

+38% gain in Ferrari & Fiat sale of Magnelli

Continuing low volumes/volatility

Drought impact on Namoi Cotton (-17%)

Discount blowouts

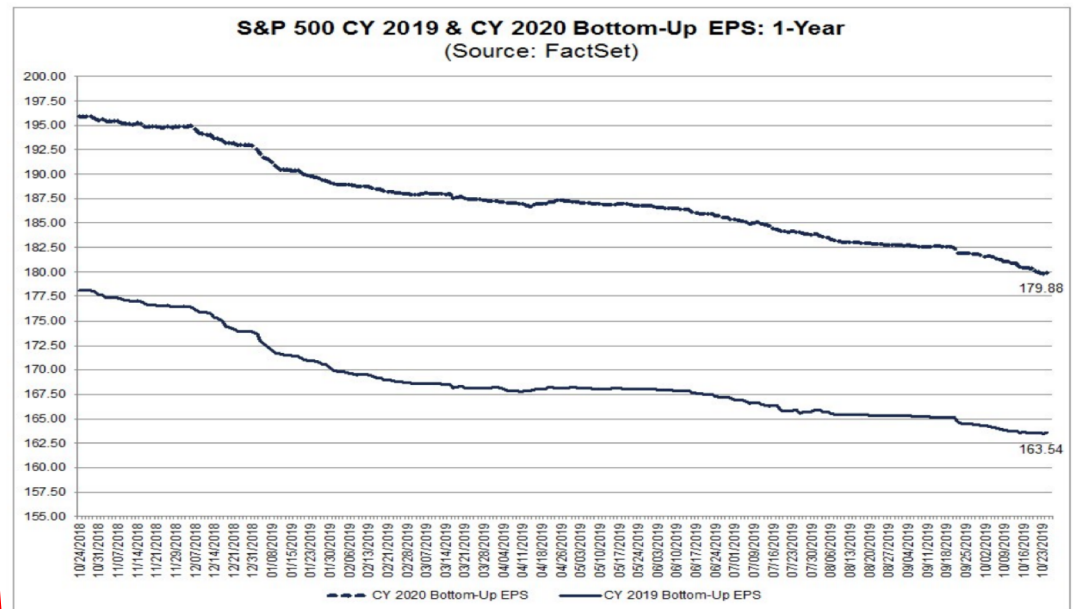
Repurchased at \$149 versus ~\$249

* from 31 October 2018 to 31 October 2019

MARKETS UP DESPITE MAJOR EARNINGS DOWNGRADES

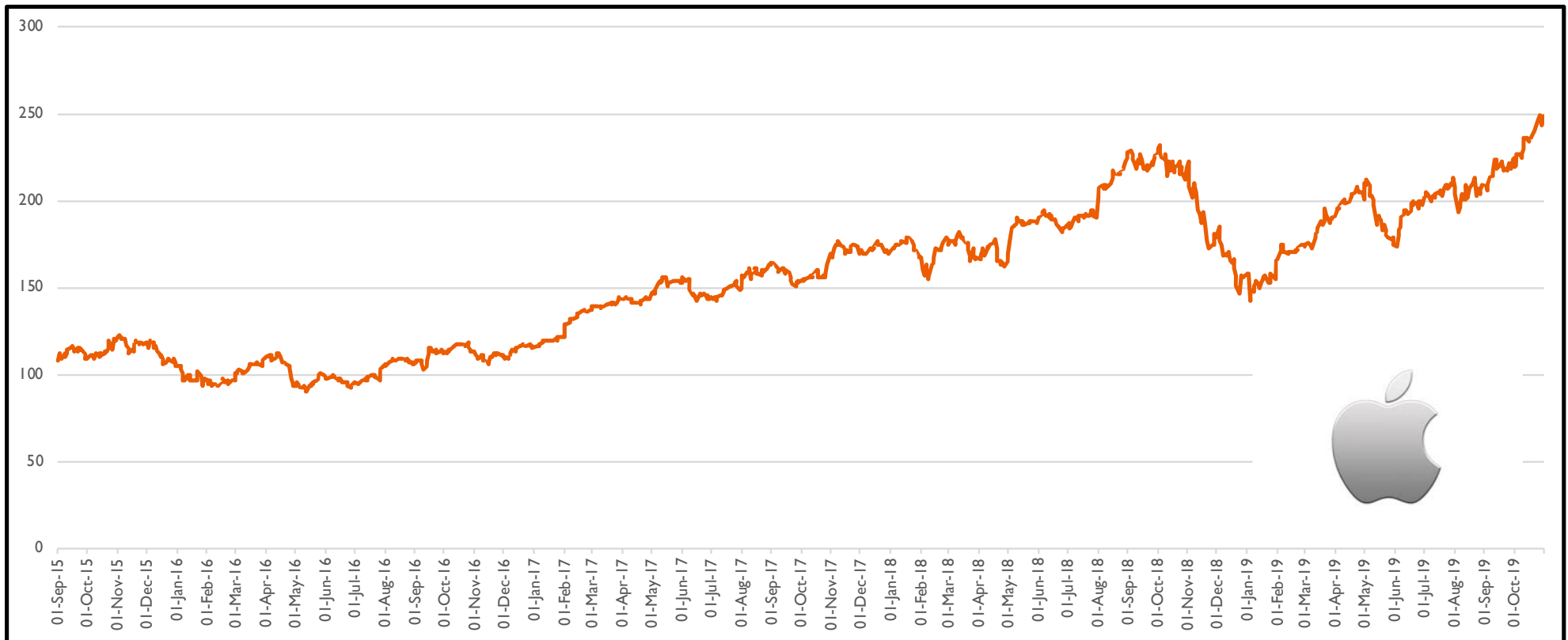
31 October	2018	2019	%Δ
S&P500	2712	3038	+12%
NASDAQ 100	6967	8084	+16%
ASX 200	5830	6663	+14%
Euro 50	3198	3604	+13%
DAX	11447	12867	+12%

31 October	2018	2019
S&P500 EPS (E) 2019	178	163.5
S&P500 EPS (E) 2020	196	180
US 10 year bond yield	3.16%	1.73%
Aust 10 year bond yield	2.63%	1.14%

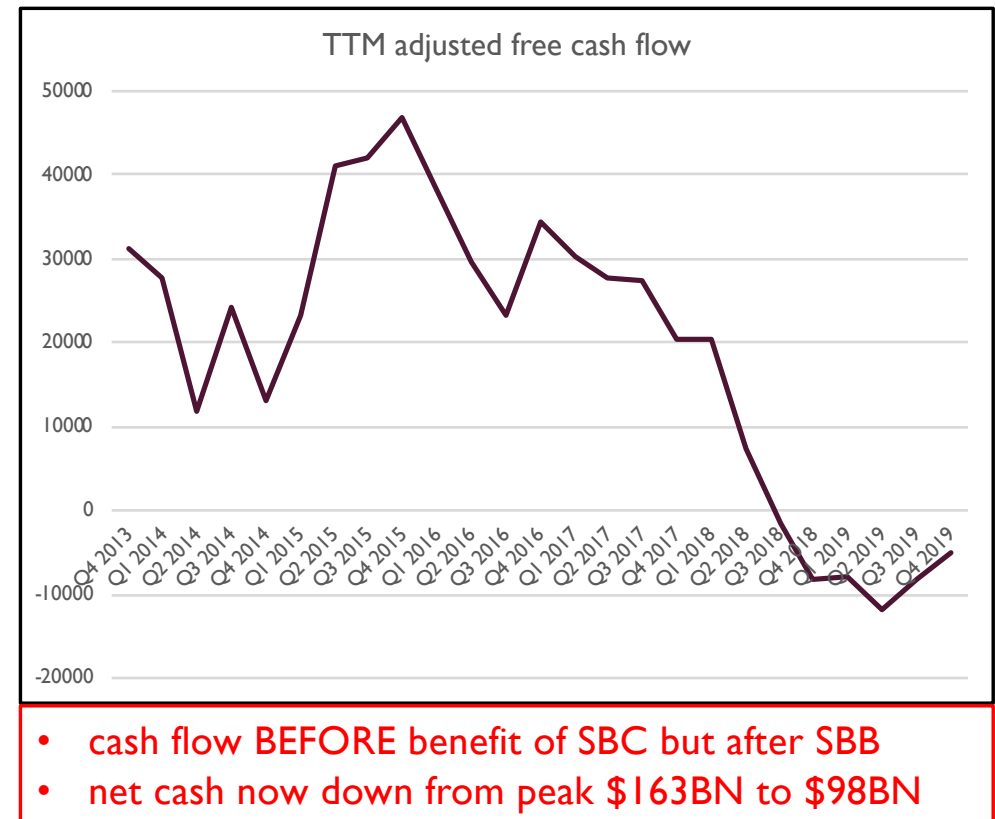
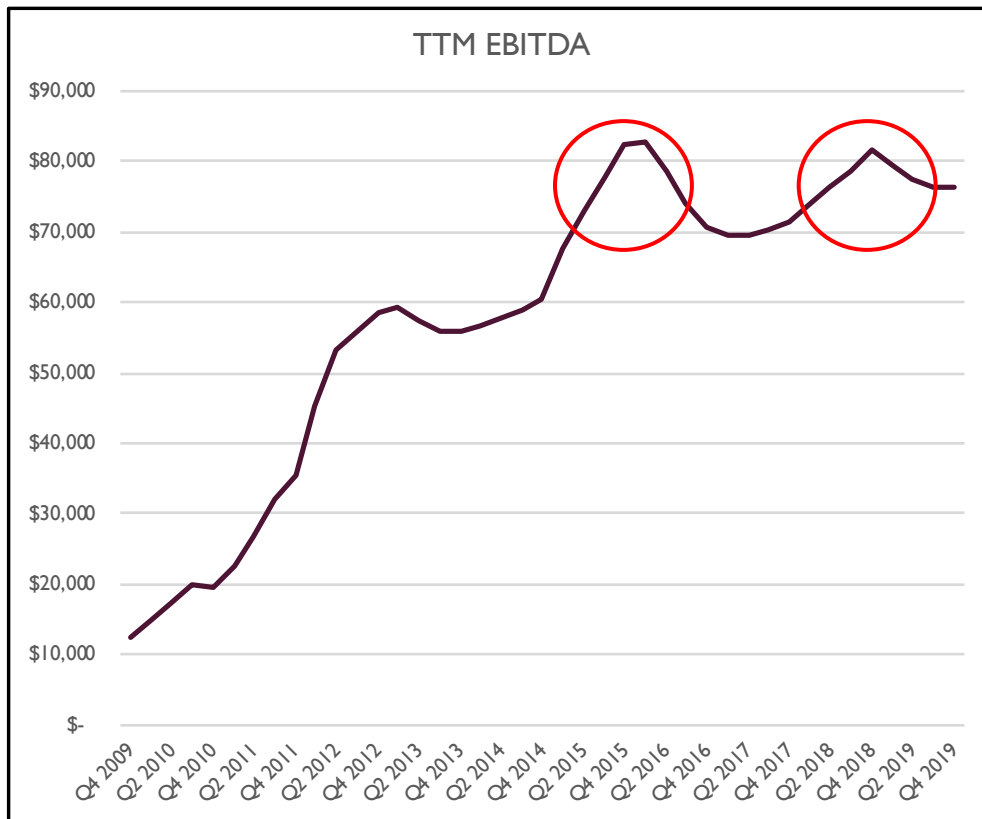


IMPACT OF LOWER BOND YIELDS

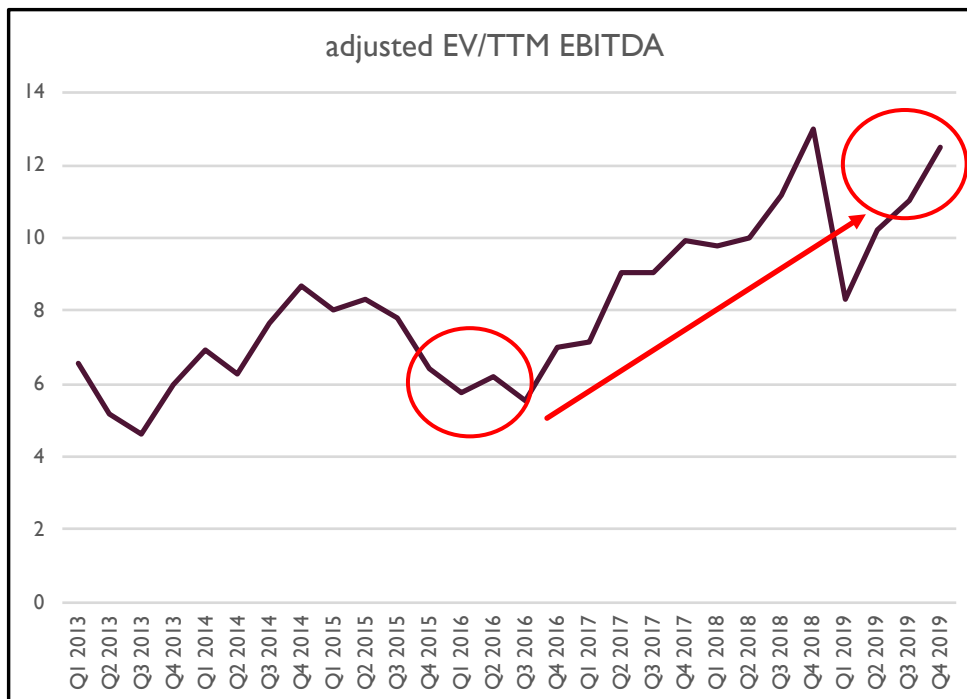
APPLE SHARE PRICE SINCE PEAK PROFITS: WHY + 150%?



APPLE: CAPITAL MANAGEMENT



APPLE: A MICROCOSM OF THE MARKET: CAPITAL MANAGEMENT + LOW RATES + ANNUITY = HIGHER RATING



- EBITDA peaked in 2015; flat lined since
- Operating profit has transformed – increased level of “service” income up from 16% to 33% in two years
- Service income margin is 2x device margin
- Service income has “annuity” characteristics
- Annuity streams LOVE low interest rates
- Company starting to enter more competitive marketplaces (streaming)
- Massive level of capital management – buybacks now ~\$70BILLION pa cf market value ~\$1160billion
- DOUBLED EV/EBITDA since peak profits

- AAPL still uses ~ \$40billion of OPM
- Rating adjusts for this

MAKE THIS A BIT MORE “SAASY”

	12 month gain to 31 October	EV [†] (LOCmn)	Sales ^{††} (LOCmn)	Op. Profit ^{††} (LOCmn)	EV/Sales (x)	EV/profit (x)
DOCU	+58%	11,352	1,066	41	10.6	276.8
SPLK	+20%	17,255	2,536	361	6.8	47.8
PME.AX	+193%	2,731	64	35	42.7	78.0
TEAM	+59%	28,562	1,665	335	17.2	85.3
VEEV	+54%	19,581	1,166	434	16.8	45.1
WTC.AX	+63%	8,067	460	150	17.5	53.8
ZM	+13% ^{†††}	16,171	702	46	23.0	351.5

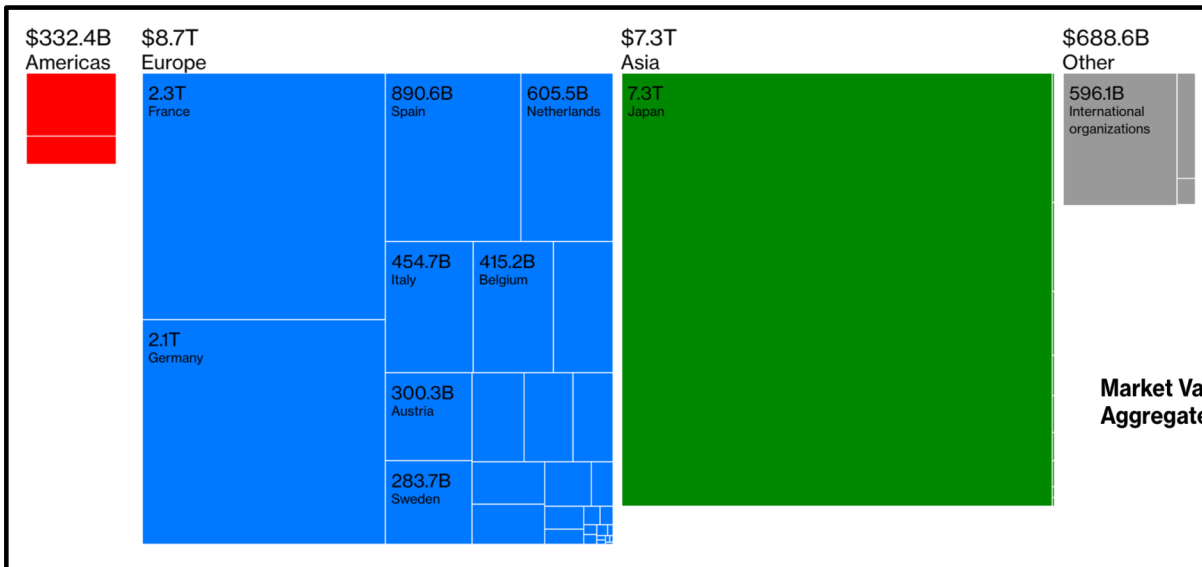
DOCU = DocuSign; SPLK – Splunk; PME.AX – ProMedicus; TEAM – Atlassian; VEEV – Veeva Communications; WTC.AX – Wisetech; ZM – Zoom Communications

[†] EV NOT adjusted for deferred revenue; ^{††} forecast next twelve months (source: Refinitiv) ^{†††} listed since April 2019 peaked at +73%

WHY ARE WE SO CAUTIOUSLY POSITIONED?

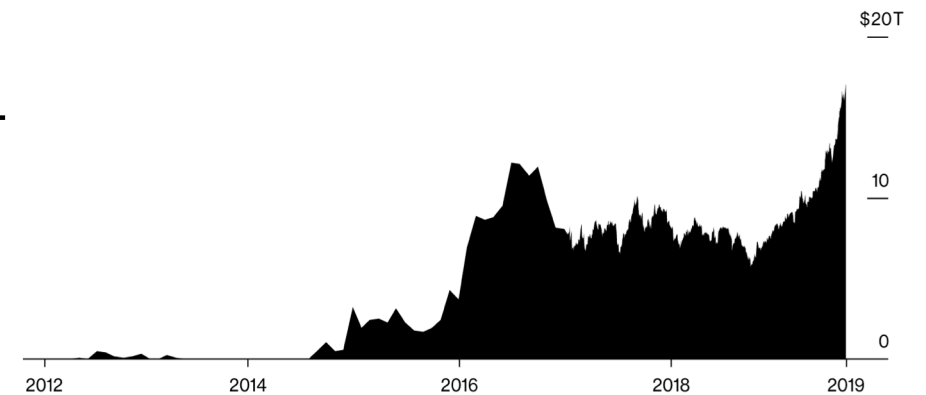
- ☐ Australian economy starting to struggle
- ☐ New ultra low rate environment not yet properly understood (banks)
- ☐ Narrow global growth drivers
- ☐ Operating in unknown policy landscape
- ☐ How much fire power do central banks really have left?
- ☐ Broad index valuations do not reflect risk – but ultra low rates
- ☐ Minor changes have outsized impacts
- ☐ Political risks acute – and DO impact on economy (Australia & global)
- ☐ Lunatic pricing of risk especially in bonds – will unravel sometime

THE CRAZIEST CHART IN THE WORLD



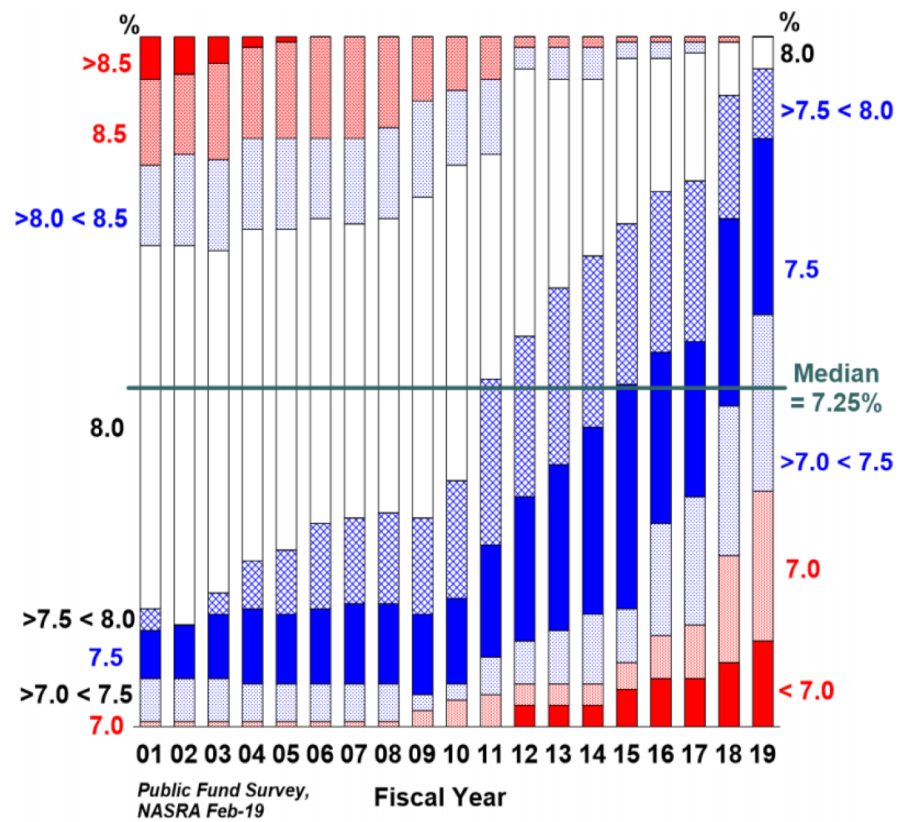
US\$17 **TRILLION** of negatively yielding corporate & Government bonds

Market Value of Negative-Yielding Bonds in the Bloomberg Barclays Global-Aggregate Index

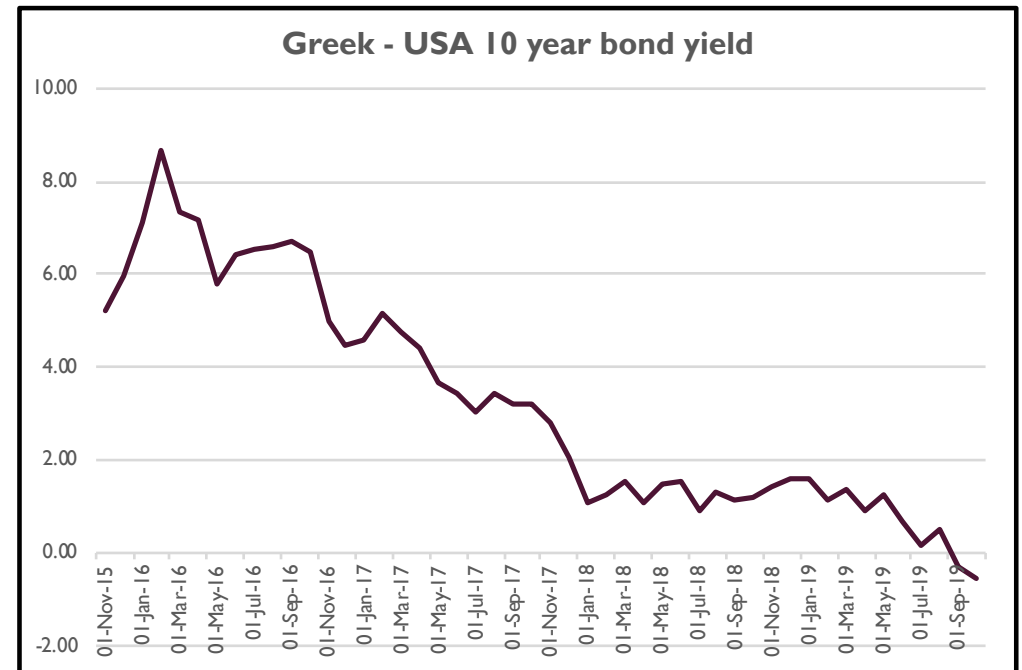


If cash yields 0% or less and bond yields are negative, how do you make 7.25% per annum?

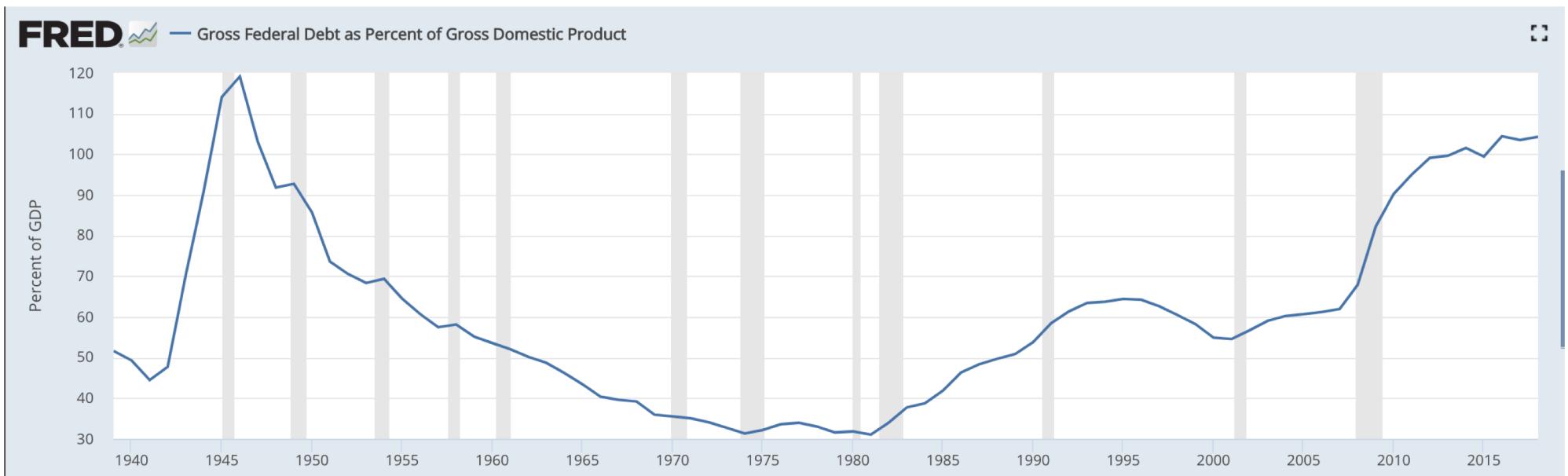
+ NONSENSE IN ASSUMPTIONS



US Pension fund trustees still assuming 7.25% annual returns...

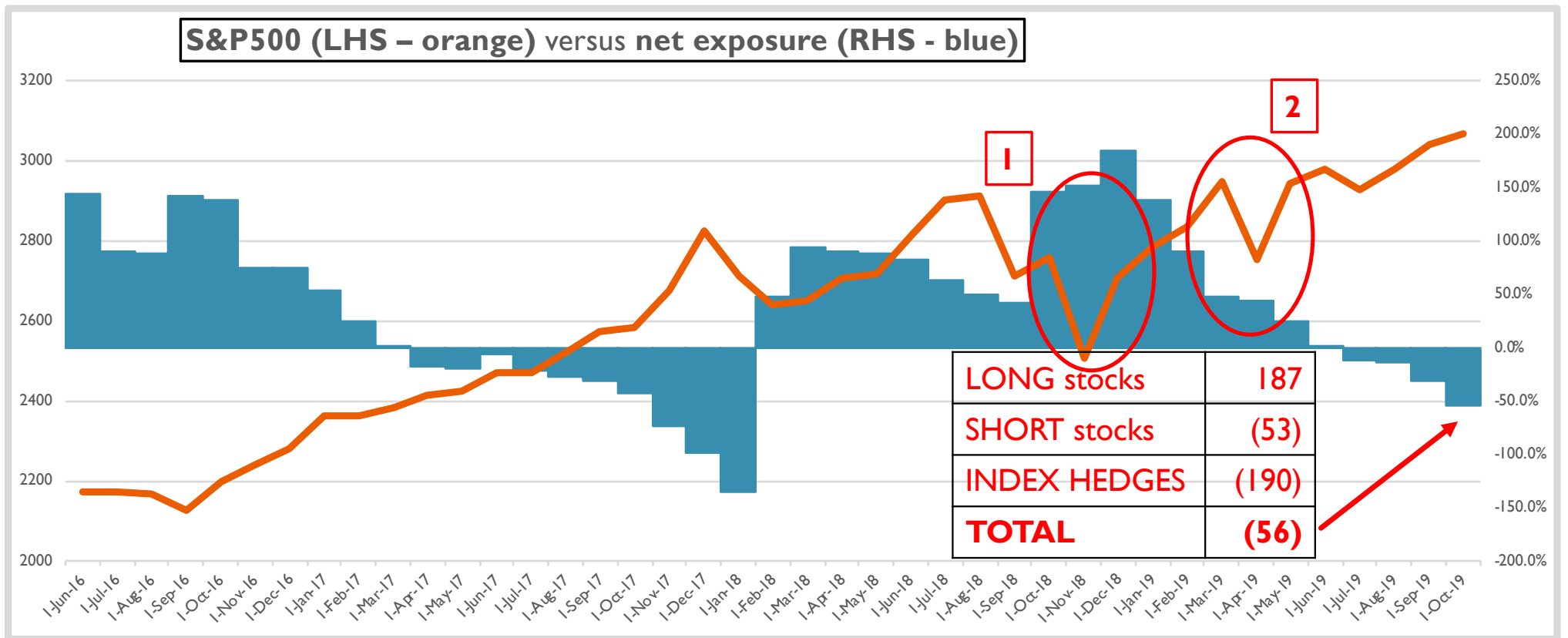


+ SO MUCH DEBT = DANGEROUS AND SPECULATIVE MARKETS

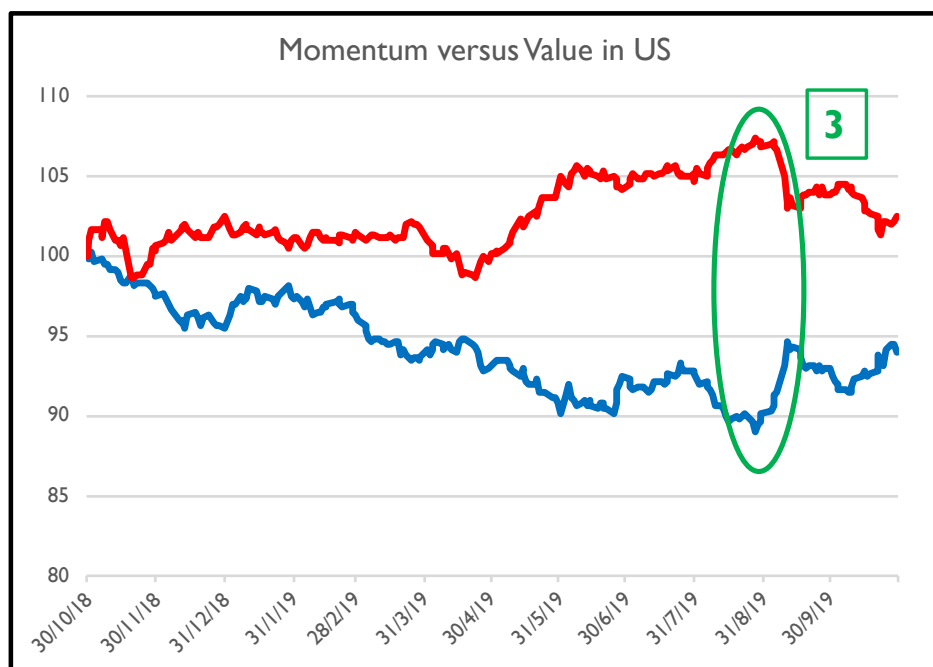


The ultimate conundrum: rates need to rise to meet pension return expectations, but if they do, the impact on the leveraged world will be disastrous. So what gives?

NET EXPOSURE AS PERCENT OF EQUITY VERSUS S&P500



INDEX HEDGING AS AT 31 OCTOBER 2019



1. Increased too early late 2018
2. Reduced too early in 2019
3. Blow off late August

	% equity	av. level	vs 31/10
SPX	77.4	2859	-5.9%
XJO	76.5	6218	-6.6%
DAX	23.4	11693	-9.3%
NAS100	12.7	7070	-12.6%
TOTAL	190.0		-7.0%

MSCI US Momentum ETF versus S&P500 (MTUM) (31/10/18 = 100)
 MSCI US Value ETF versus S&P500 (VLUE) (31/10/19 = 100)

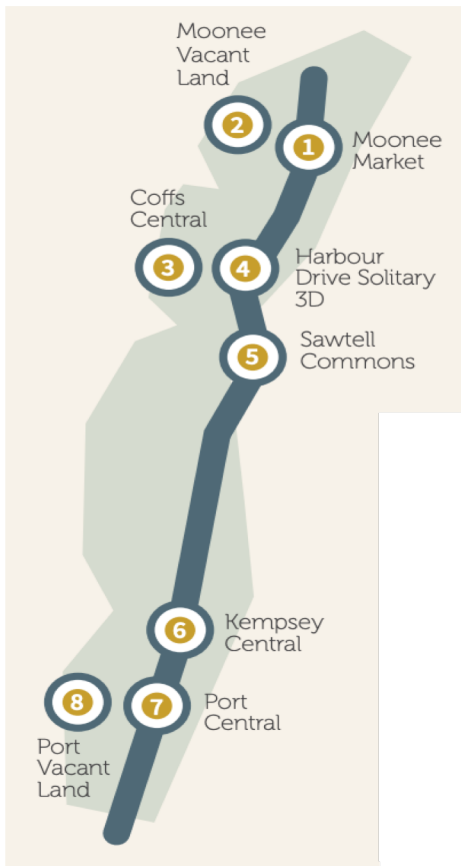
LARGEST STOCK EXPOSURES AS AT 31 OCTOBER 2019

STOCK	POSN
Tesla	4.9%
Yellow Brick Road	2.5%
AerCap Holdings	2.4%
Alphabet	2.3%
EXOR NV	2.1%
Prime Media	2.0%
PM Capital Global Opp. Fund	1.8%
Virtu Financial	1.7%
Berkshire Hathaway	1.7%
Namoi Cotton	1.6%

Position % gross assets
Short Sale positions
Australian special situation and/or discount to assets
FEATURED STOCKS

STOCK	POSN
Goldman Sachs	1.6%
McGrath Holdings	1.6%
Vornado Realty Trust	1.5%
Alliance Data Systems	1.5%
Gowing Brothers	1.4%
KKR and Co	1.3%
PHLX semi conductor ETF	1.2%
Bollore	1.2%
A2B Limited	1.1%
ING Groep	0.9%

GOWING BROTHERS LIMITED: NORTH COAST NSW FOCUS



- Founded 1868; ords. publicly listed in 1940s
- Retail backdrop with property ownership
- Share portfolio established in 1950s
- Retail business spun off late 2001
- Diversified portfolio – increased emphasis on retail property, private & strategic equity
- Conservative, patient, family controlled

53.9million shares x \$2.26 = \$122million equity
 Net debt (31 July 19) = \$ 82million
ENTERPRISE VALUE = \$204million

- Major shift Dec 2009 – November 2011
- Acquired 4 North Coast NSW shopping malls
- Divested equities + debt: paid \$121million
- Since added ~ \$80million of refurb/add-ons
- Value uplift from cap rate compression
- Rental growth yet to emerge due to construction

Population Growth * 2016-2036

76,200



+46,000

more homes required



Tourism Impact 2016

\$3.7b
Regional Economy

12.2m
Tourist Visits

3RD

Most popular Australian tourist destination by overnight stays



Regional Airport Passengers 2006-2016



250%
Increase

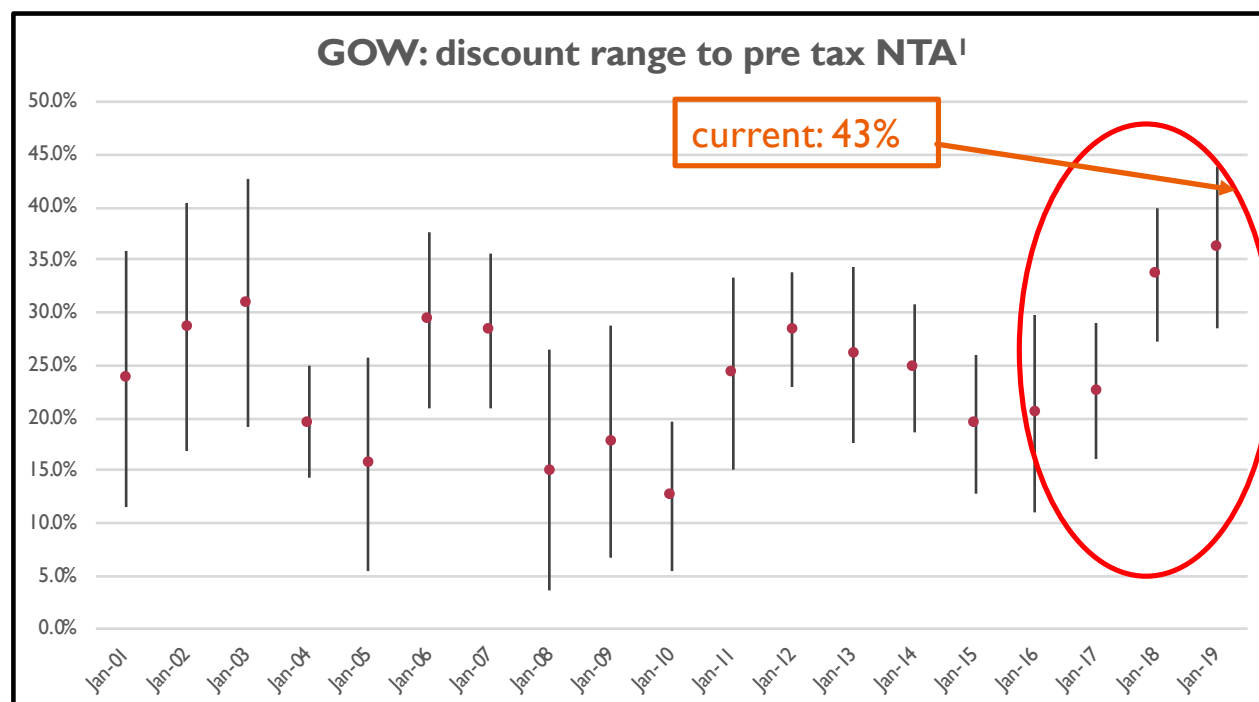
1,064,100(2016)

304,008(2006)

GOWINGS INVESTMENT THESIS

- ❑ Acquired undervalued shopping centre assets in aftermath of GFC
- ❑ Needed refurbishment, development to capitalise on opportunity
- ❑ 'Cluster' strategy brought forth other developments in North Coast
- ❑ Significant capital expenditure/development profile
- ❑ Scope to improve underperformer (Port Macquarie)
- ❑ Spend highly value accretive but constrains capital management
- ❑ Potential to unitise individual centres – validate valuations
- ❑ Sawtell land subdivision sales will generate cash flow
- ❑ Sale of least strategic centre (November 2019) frees up funds/validates

OPPORTUNITY: MAJOR INCREASE IN DISCOUNT TO STATED NTA

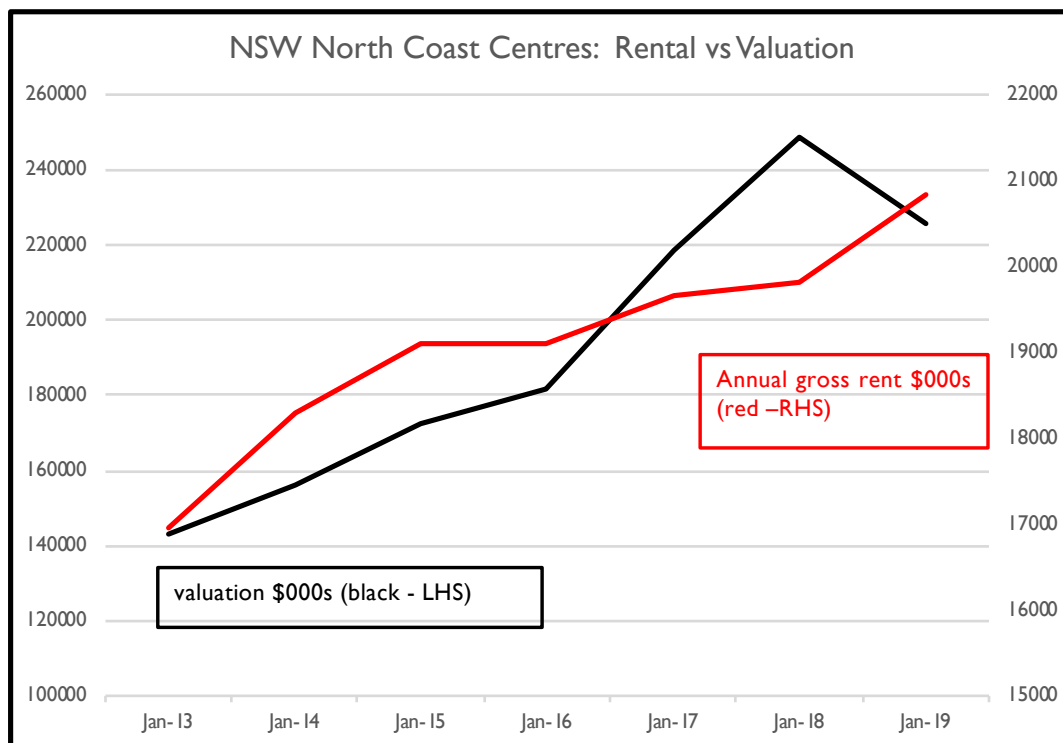


WHY THE INCREASE IN DISCOUNT?

- Acquisition of Surf Hardware
- Inability to buy back stock due to capital commitments
- Minor reduction in dividend
- Overhang of institutional stock seller
- Need to verify shopping centre values cf. rental growth
- “Value/growth” issues?
- Historically high debt exposure

¹: range from October to September encompassing July year end; pre tax NTA adjusted for bonus/rights issues

RENTAL GROWTH VERSUS VALUATIONS



- Overall cap rate moved from 9.05% in 2013 to low of 6.45% in 2018 – 6.95% at 31 July 2019
- Moonee Centre (included) sold Nov 2019
- \$30.5million sale (acquired for \$13.2mn)
- Rental growth to come from:
 - new cinema completion & lease of refurbished space at Kempsey
 - Land development & Woolworths in Port Macquarie (sta)
 - Improving trading at Coffs Harbour
 - Further adjacent redevelopments in Coffs
- Ongoing area growth – by pass, airports

OUR ASSESSED VALUE – BELOW STATED NTA BUT 40% UPSIDE

	\$mn	per share	comments
North Coast Shopping Centres	201.8	\$3.74	Estimate: excludes Moonee Beach (sold)
Other Properties	30.1	\$0.56	Development land (Sawtell) + other properties
Listed equities	16.2	\$0.30	EVT, NSX, CIN etc
Boundary Bend (Cobram Estate)	14.8	\$0.27	\$8.50 per share
Private equity (funds/direct)	10.7	\$0.20	30% discount to book value
Surf Hardware (100%)	8.0	\$0.15	10x profit; 50% discount to carrying value
TOTAL	281.6	\$5.22	
Net debt	(51.4)	(\$0.95)	adjusted for \$30m proceeds of Moonee Beach
Capitalised central costs	(30.0)		7x costs
Net other liabilities	(21.0)		Current price: 32% discount to assessed value
NET ASSETS	179.2	\$3.32	Stated NTA pre all tax = \$4.01/share

TESLA: AT THIS PRICE IT MUST BE A HELL OF A CAR COMPANY

US\$mn	Equity value	Firm value	TTM EBITDA	(x) FV/ EBITDA	TTM delivery	FV/car (\$)
Toyota	194,729	194,638	40,614	4.8	9,196,432	21,164
BMW	40,556	88,521	12,378	7.2	2,522,052	35,099
Tesla	56,371	64,743	2,059	31.4	345,860	187,193
Honda	48,055	44,423	15,918	2.8	5,334,000	8,328
VW	95,189	41,515	36,299	1.1	9,363,000	4,434
Daimler	62,647	35,945	12,617	2.8	2,373,869	15,142
Ferrari	33,278	34,647	1,349	25.7	10,153	3,413,483
GM	53,064	33,315	16,001	2.1	7,928,000	4,202
Fiat	30,279	29,288	11,796	2.2	4,406,000	6,647
Ford	37,648	15,432	5,892	2.6	6,422,000	2,403

FV = equity + debt less value of credit subsidiaries at NTA & removes their earnings; excludes pension liabilities

Is Tesla worth 2 GM's (Cruise losses accounted) or 4 Fords or 2+ Fiats?

Includes Audi, Porsche – both with high performance TSLA competitors

The greatest piece of capital management in past 3 years. Biggest beneficiary: EXOR

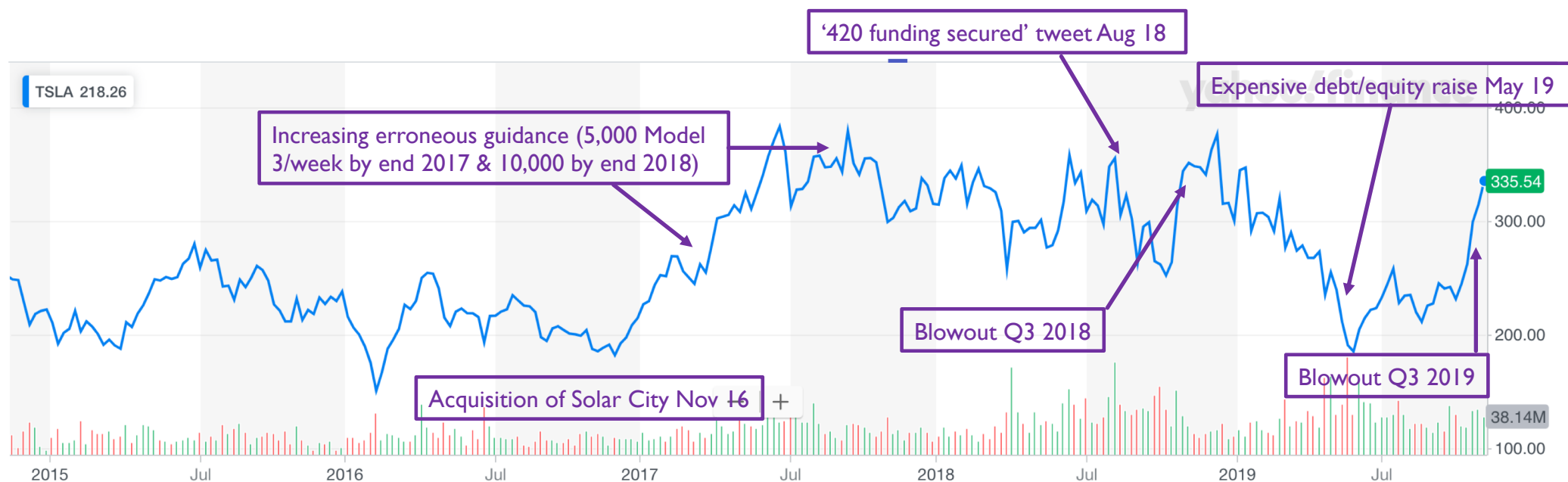
Not a highly valued industry!!!

WHY SHORT SELL TESLA? IT'S A VERY COMPLEX STORY

The analysis which follows is necessarily abbreviated and covers only a portion of our short thesis regarding Tesla equity. We have had to simplify the analysis to ensure comprehension by persons who are not securities analysts.

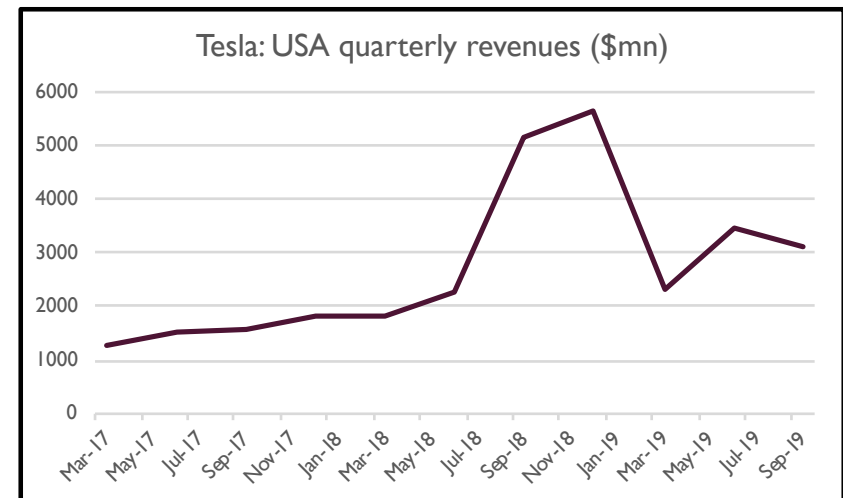
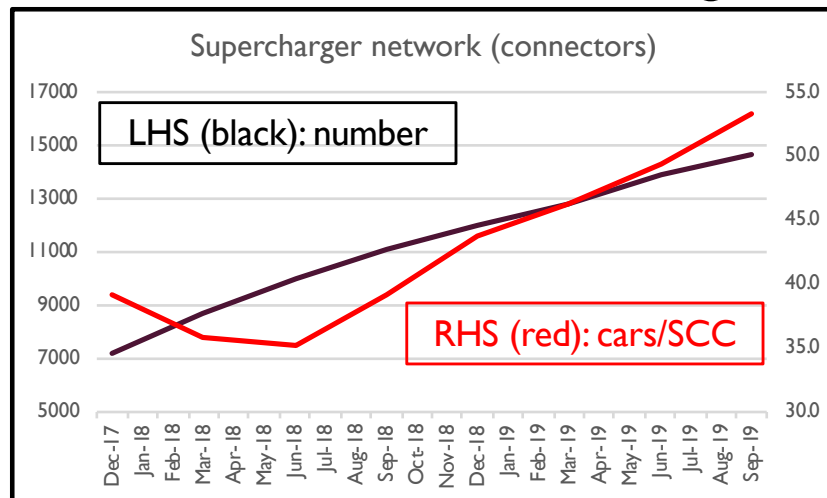
- Valuation – a cult stock
- Execution and Competition
- Governance red flags
- Accounting “games” – no real cash flow
- China

A CULT STOCK: \$16BN ADDED IN 3 WEEKS ON EARNINGS “BEAT”



EXECUTION DIFFICULTIES

- Senior management turnover
- Low production quality + lack of dealer network to fix damage & breakdown
- Reduced/car access to supercharger network despite being part of the proposition
- Competition now arriving from traditional players
- US market revenue now falling



GOVERNANCE RED-FLAGS

- “420 funding secured” & other social media reactions
- Solar City acquisition – recent disclosures in legal case
- Non recusal from conflicts of interest
- Stock leverage & potential intertwining of other Musk companies
- Accounting games – see later
- Large number of late, unfilled & unreliable promises
- Obfuscation regarding FSD safety and battery safety
- Continual change to quarterly results formats – evasion of professional questions

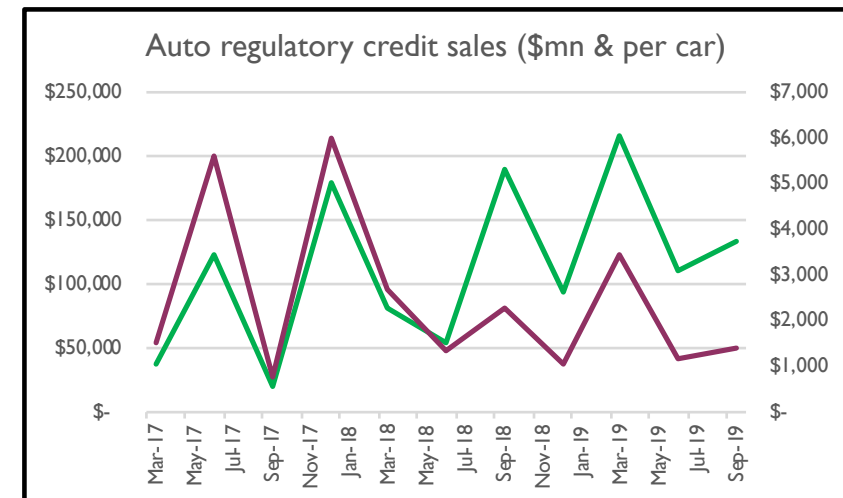
HOW DID TESLA “INCREASE” CASH BY \$2.3BN IN LTM?

\$million		Main features		
Operating cash flow	2,215	Stock based compensation	822	Pays for 2/3 of “cash” capex
		Regulatory credit sales	556	“significant” payments from Fiat
		Deferred revenue	747	Features yet to be delivered
Investing cash flow	(1,398)	Capex	(1,240)	Really ~\$1.9billion
Financing cash flow	1,496	Net debt issuance	1,612	
		Finance leases (capex)	(298)	+ \$375m included directly in liabilities
		Conv. note hedges	(476)	Cost of raising \$1.84billion debt in May 19
		Equity/warrants	1,265	
TOTAL	2,302			Basically all from equity & debt issues

HOW CAN TESLA LEGALLY “GAME” THE ACCOUNTS?

- Quarterly accounts not audited
- Scope to bring forward/defer significant costs/supplier rebates
- Warranty versus full self driving (& Tesla SC network)
- “Green credit” sales

2019 per non lease vehicle	Q3	Q2
Estimated ASP	56,781	57,749
+ deferred revenue for FSD/SC	1,978	2,582
- Booked DR for FSD/SC	721	869
- Effective warranty cost [†]	1,568	1,750
“ADJUSTED” ASP	56,470	57,712



[†] warranty costs go against cost of goods sold but for illustrative purposes we have treated them as a charge to revenue

HOW TESLA LEGALLY “GAMES” THE NARRATIVE: 2019

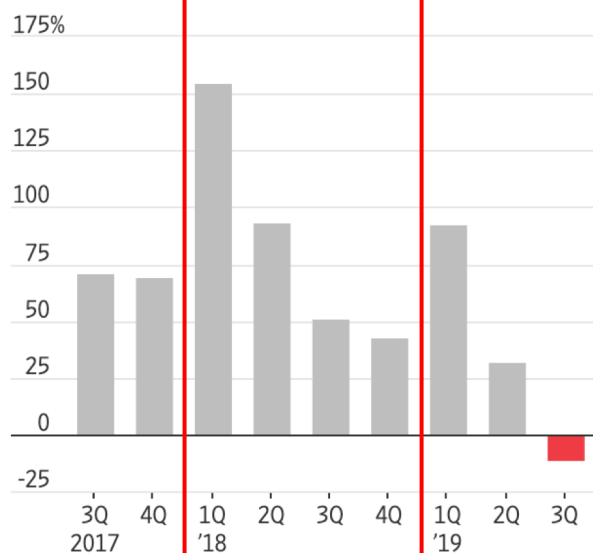
- Differences between press release and subsequent 10-Q
Q1 2019: \$15m of ZEV credits 24 April; >\$200m extra non-ZEV noted in 10-Q on 29 April
- Flaky definition of “free cash flow”
Q3 defines as operating cash flow less capex; omits significant capex & payments to holders of solar

(\$ in millions, except percentages and per share data)	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019
Net cash provided by (used in) operating activities	1,391	1,235	(640)	864	756
Capital expenditures	(510)	(325)	(280)	(250)	(385)
Operating cash flow less capital expenditures	881	910	(920)	614	371
Net cash provided by operating activities					980
Cash Flows from Investing Activities					
Purchases of property and equipment excluding finance leases, net of sales					(915)
Principal payments on finance leases					(223)
Distributions paid to noncontrolling interests in subsidiaries					(211)
Supplemental Non-Cash Investing and Financing Activities					
Acquisitions of property and equipment included in liabilities				\$	375

Capex via finance lease, payments required to be made to holders of interests in subsidiaries (solar) and other non cash based acquisition: \$809m

CHINA: NOT AS EASY AS YOU THINK

EV unit sales, change from a year earlier



- 2018 EV sales: 1.26million units
- 2019 will be ~1.5million but rapidly slowing
- 2020 target 2million unlikely to be reached
- BYD (1211.HK) shares down 30% this year
- NIO down 80% from peak
- 9 domestic Chinese manufacturers
- subsidies reduced
- VW also now have China EV plant

TEN KEY TAKEAWAYS

1. Largest stock exposures from a year ago were mixed, but not disastrous
2. Equity markets driven by much lower bond rates in face of significant earnings downgrades
3. Re-rated perceived annuity, high margin companies, despite lack of profit growth
4. These features have limits
5. Negative bond yields (and short rates) are the most dangerous facet of investment markets
6. Neither are properly appreciated
7. Our hedging strategy was too early in 2019
8. Largest long stock exposures have many single digit multiples & large discounts to realistic value
9. Largest short stock exposures are largely cult stocks with limited margins for error
10. With rates at zero and high debt, at this stage of the cycle, risk is extreme and mispriced

SOURCE NOTES BY SLIDE NUMBER

- 5: Factset, E72
- 6: Apple company reports, compiled and adjusted by E72
- 7: ibid
- 9: Refinitiv compiled and adjusted by E72
- 11: Bloomberg
- 12: National Association of State Retirement Administrators; Federal Reserve Board of St. Louis
- 13: Federal Reserve Board of St. Louis 15: Company reports compiled by E72
- 17: Gowing Brothers Limited
- 19: Gowing Brothers Limited company reports, compiled and adjusted by E72
- 20: ibid
- 22: Company reports compiled and adjusted by E72
- 25: Tesla company reports compiled and adjusted by E72
- 27: ibid
- 28: ibid
- 29: ibid
- 30: Bloomberg, Refinitiv

exposures to companies in italics have been subsequently divested

ACCOUNTABILITY: HISTORIC EXPOSURES PROFILED BY E72

September 2016 QR #1	European banks Investment companies		AGM 2017	Financiere de L'Odet/Bollore (France: ODET/BOL) <i>Associated Capital Group (US:AC); bitcoin</i>	25/9/17
AGM 2016	<i>Fortress Investment Group (US: FIG)</i> <i>Vealls Limited (ASX:VELCP)</i>	29/11/16	December 2017 QR#6	Markets & valuations	15/1/18
December 2016 QR #2	<i>ASTM SpA (Italy:AT)</i> <i>AP Moller Maersk (Denmark: MAERSK-B)</i> <i>Wm.Wilhelmsen (Norway:WWIB)</i>	9/1/17	March 2018 QR #7	Gowing Brothers Limited (ASX: GOW) McGrath Holdings Limited (ASX: MEA)	6/4/18
February 2017 presentation	<i>AP Moller Maersk (Denmark: MAERSK-B)</i> <i>Virtu Financial (US:VIRT)</i> <i>EXOR SpA (Italy: EXO)</i> <i>Caterpillar Inc (US: CAT)</i>	15/2/17	May 2018 presentation	<i>Namoi Cotton Limited (ASX: NAM)</i> <i>DHT Holdings Inc (US: DHT)</i> Listed investment companies; Family companies <i>Gold stocks (US: GDX; GDXJ)</i>	17/5/18
March 2017 QR #3	<i>Berkshire Hathaway (US: BRK)</i> Banks	4/4/17	June 2018 QR #8	<i>E-L Corporation (Canada: ELC)</i> <i>Macquarie Group (ASX: MQG)</i> <i>Ralph Lauren (US: RL)</i> <i>Vornado Realty Trust (US:VNO)</i>	3/7/18
June 2017 QR #4	<i>AerCap Holdings NV (US:AER)</i> <i>Fairfax Financial Holdings (Canada: FFH)</i>	4/7/17	September 2018 QR #9	<i>Tesla (US:TSLA)</i> <i>IDT Australia (ASX: IDT)</i> <i>Wm.Wilhelmsen (Norway:WWIB)</i>	4/10/18

exposures to companies in italics have been subsequently divested

ACCOUNTABILITY: HISTORIC EXPOSURES PROFILED BY E72

AGM 2018	Blackstone (US: BX) KKR & Co (US: KKR) European Banks Investment Companies	8/11/18	June 2019 QR #12	Australian Banks Afterpay (ASX: APT) Alliance Data Systems (US: ADS)	11/7/19
December 2018 QR #10	Aercap Holdings (US: AER) <i>Apple (US: AAPL)</i> Virtu Financial (US: VIRT)	8/1/19	September 2019 QR #13	<i>Webster (ASX: WBA)</i> E-L Corporation (Canada: ELC) DTLA Office Trust (US: DTLA-P) Fairfax India Holdings (Canada: FIH-U) Vulcan International (US: VULC) PICO Holdings (US: PICO)	10/10/19
March 2019 QR #11	SAAS stocks ING Groep (INGA.AS) Alleghany (US: Y)	4/4/19	AGM 2019	Gowing Brothers (ASX: GOW) Tesla (US: TSLA)	15/11/19
May 2019 presentation	Financiere de L'Odet/Bollore (France: ODET/BOL) Madison Square Garden Company (US: MSG) <i>Macquarie Group (ASX: MQG)</i>	16/5/19			

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