QUARTERLY REPORT #27: PERIOD TO 30 APRIL 2023

Proposed delisting from NSX

After due consideration by the board of East 72 Holdings (E72), we have taken the decision to recommend to shareholders that the company should be delisted from the National Stock Exchange of Australia (NSX). Shareholders will be sent the requisite paperwork for a general meeting to consider this move by end May 2023.

We have reached the conclusion that the cost of remaining listed – which is not just listing fees but other higher imposts for publicly listed companies (audit, ASIC fees, registry) – are excessive for a smaller company where share transactions have generally been arranged by Directors between two interested parties. The last actual trade on NSX was in July 2018. As part of our deliberations, we have noted the fact that NSX itself has a consistent need to raise capital and sadly, we are unsure on its long term strategy or viability.

What does this mean for shareholders?

Simply, less of our capital is going to pay fees for services we effectively don't use. Together with other measures we are assessing, <u>we expect to reduce our total cost base by approximately 45%</u> for the full FY24 to 30 June 2024 relative to FY23.

Moreover, the initiative launched earlier this year to launch the wholesale investment vehicle, East 72 Dynasty Trust (E72DT), which we manage, is starting to see interest from a wide variety of eligible individuals attracted by its unique offering. We have started to see external funds flow into E72DT, which provides a currently small - but growing - income stream to E72. Building E72DT to be a viable stand-alone trust is our main emphasis over the coming periods, and we are prepared to invest further funds to ensure this is the case.

Hence, aside from returns from the investment of our own capital, we expect revenue from management fees in FY24 to grow from a small base in FY23, against a significantly reduced cost impost. Assuming a 10% return on E72DT, we estimate E72 on a standalone basis should become profitable once E72DT reaches ~$5million in funds. Once we reach this juncture, returns on our capital base will not be subject to reduction by operating costs.

Communications in the future

As an unlisted public company with in excess of 100 shareholders, E72 will be subject to Section 1001B of the Corporations Act (2001) Cth and be required to lodge <u>material information</u> with ASIC. Our intention is to contact shareholders electronically and maintain an area of the east72.com.au website for such information, since ASIC charge significant fees to access lodgements of any kind.

We are not required to lodge half yearly reports and will apply to ASIC for various exemptions under Regulatory Guide 95.

We intend to continue quarterly communications but in a different manner to the past. However, our investment thinking **will** be detailed in the East 72 Dynasty Trust Quarterly Reports.

Future investment strategies

We will continue to maintain a smaller number of selected long positions than was previously the case and have already moved to trim the number of securities in the portfolio. Our investments in long ideas will also be pursued via a principal investment in East 72 Dynasty Trust.

We will continue to use hedging strategies within E72 (but not E72DT) and currently have significant hedges in S&P500 and in ASX 200 and NASDAQ100. In each case, we see conditions for index level equity returns to be heavily compromised by rising interest rates, sticky service area (not product) inflation and significantly reducing liquidity from the loosest monetary and fiscal conditions we have ever experienced. The ongoing narrow returns from US equity indices focused around Apple, Meta Platforms, Alphabet and Microsoft are reflected in the significant outperformance of capitalisation weighted indices against their equal weighted counterparts.

At end April 2023, we hold a gross exposure of 431% of equity; this is comprised of 182% long and 249% short for a net exposure of -67%. In other words, every dollar of equity is exposed to a net $0.67 short position.

Yellow Brick Road
We hold a significant position in Yellow Brick Road (YBR), about which we wrote a detailed piece in December 2021 (QR# 22). Since that time, the share price has fallen ~40% but the shares trade only intermittently with a 20% bid-offer spread.

What is particularly galling about YBR is the fact that unlike other securities in the mortgage services sector, the shares never came close to reflecting their true value even in more appealing times for housing finance provision in Australia. This is a direct result of investor unwillingness to countenance the hefty payments to executive directors and past mistakes.

However, of course, the shares <u>have</u> fallen in line with other sector participants (eg AFG) and so continue to trade at an enormous discount to our view of their underlying value – and certainly their value to another corporate. Yet the Directors show no willingness to either embrace investors with YBR as a public entity, nor buy back securities with their enhanced cash pile to take advantage of investor apathy. Of course, they may be entertaining some type of corporate strategy we don't know about – which is what they should be doing.

Over the past eighteen months, conditions for mortgage brokers have tightened, with significant churn and narrowed margins. Some of these factors are now improving, but volumes have fallen. Within YBR, the net present value of the income stream from the book of mortgages within the three channels – aggregator (vow), franchise (YBR) and manufacturer (resi) – has fallen around $5million (1.7c per share) in the past eighteen months. In addition, relevant multiples of loan book will also have compressed from the >2.5x P/NPV seen in 2021 corporate transactions. However, our earlier analysis showed a significant margin of safety with an assessed corporate value of over 30c a share at that time.

Further, net cash (including a loan) is up from $6m to over $8million (2.6c per share) with YBR having redeemed its mezzanine debt within the RWF joint venture to Sandhurst Trustees; the RWF venture is making strides towards its first securitisation issue with over $600million in facilities.

We still see a minimum value of YBR of 15c/share even under more challenging conditions or ~2x the prevailing share price. The recent major bank results show that they crave distribution rather than cash giveaways as a method of attracting new business. With mortgage brokers now responsible for over 71% of system loans being written, whilst banks may not be natural acquirors of YBR, other industry participants, most certainly should be.

We do not believe YBR should be a public company. The marketing methods of the Executive Chair do not lend themselves to a public company environment, and Mark Bouris has **never** really embraced YBR as a public entity (nor his other public company roles for that matter). Nothing wrong with being more comfortable outside of the PLC environment, but don't stay there if you don't need to be. We look forward to seeing YBR make progress to placing itself in a more appropriate structural setting, attracting a far more appropriate valuation, from which we hope to **significantly** benefit.

East 72 Dynasty Trust

East 72 Dynasty Trust has returned 3.5% since inception to 30 April 2023, reflecting a conservative stance to investing its cash.

East 72 Dynasty Trust top twenty long positions in alphabetical order as at 30 April 2023 are:

Alphabet (C class) (*)	Liberty Broadband
Bollore	Magellan Financial Group (*)
Catapult International	Manchester United PLC (*)
CK Hutchison	MFF Capital Investments
Companie Financiere Richemont	Robertet
Economic Investment Trust	Societe des Bains de Mer
Exor NV (*)	Swatch Group (*)
FRP Holdings	Virtu Financial (*)
IWG plc	Vivendi
Laurent Perrier	Volkswagen Group AG (*)

(*) also held directly by East 72 Holdings

For further information:

Andrew Brown
Executive Chair
0418 215 255
andrew.brown@east72.com.au

Disclaimer

While East 72 Holdings Limited (**E72**) believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. E72 and its related companies, their officers, employees, representatives and agents expressly advise that they shall not be liable in any way whatsoever for loss or damage, whether direct, indirect, consequential or otherwise arising out of or in connection with the contents of an/or any omissions from this report except where a liability is made non-excludable by legislation.

Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of E72 and therefore may not be realised in the future.

This update is for general information purposes; it does not purport to provide recommendations or advice or opinions in relation to specific investments or securities. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should take relevant advice before acting on the commentary. The update is being supplied for information purposes only and not for any other purpose. The update and information contained in it do not constitute a prospectus and do not form part of any offer of, or invitation to apply for securities in any jurisdiction.

The information contained in this update is current as at 30 April 2023 or such other dates which are stipulated herein. All statements are based on E72's best information as at 30 April 2023. This presentation may include forward-looking statements regarding future events. All forward-looking statements are based on the beliefs of E72 management, and reflect their current views with respect to future events. These views are subject to various risks, uncertainties and assumptions which may or may not eventuate. E72 makes no representation nor gives any assurance that these statements will prove to be accurate as future circumstances or events may differ from those which have been anticipated by the Company.

East 72 Holdings subsidiary East 72 Management Pty Limited is Corporate Authorised Representative 001300340 of Westferry Operations Pty Limited (AFSL 302802) of which Andrew Brown is a Responsible Manager.