



EAST 72 HOLDINGS LIMITED

PRESENTATION TO 2020 ANNUAL GENERAL MEETING

14 JANUARY 2021

ANDREW BROWN

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THESE ARE NOT NORMAL TIMES

| | |
|-------------------------------------|---|
| Parallels with 2000 | Concentrated returns |
| Signs of speculative excess | Tesla: putting metrics around the abnormal Portfolio of short positions Pets |
| Some deep discounts to value | The evidence: Xplore Wealth Why we are attracted to Yellow Brick Road 40%+ discounts to liquidation value |

CONCENTRATED SECTORAL RETURNS: 1999 & 2020

| S&P 500 SECTOR | RELATIVE RETURNS | | S&P 500 WEIGHTING | |
|------------------------------|------------------|--------------|-------------------|--------------|
| | 1999 | 2020 | End 1999 | End 2020 |
| TECHNOLOGY | 60.3% | 23.5% | 30.0% | 27.6% |
| Capital Goods | 6.4% | -4.6% | 8.4% | 8.4% |
| Basic Materials | 1.6% | 3.7% | 2.9% | 2.6% |
| Consumer Cyclicals | 1.2% | 11.5% | 9.3% | 12.7% |
| S&P500 (ABSOLUTE) | 20.1% | 16.3% | 100% | 100% |
| Communication Services | -5.7% | 9.2% | 8.0% | 10.8% |
| Energy | -6.1% | -41.9% | 4.9% | 2.3% |
| Financials | -18.5% | -15.4% | 13.0% | 10.4% |
| Consumer Staples | -28.3% | -5.3% | 11.2% | 6.5% |
| Health Care | -29.7% | -2.5% | 9.3% | 13.5% |
| Transportation/Real estate | -30.4% | -15.8% | 0.7% | 2.4% |
| Utilities | -32.7% | -13.5% | 2.3% | 2.8% |

OBVIOUS SIGNS OF EXCESS SPECULATIVE ENTHUSIASM

- Concentrated returns
- Investor complacency
- Bitcoin
- “Paradigm shift”
- Low credit spreads
- CB’s: no price discovery
- Arrogance
- SPACs & IPOs



Chamath Palihapitiya @chamath · Jan 1

In 2020, I invested \$370M of my money in a handful of new positions.

As of 12/31 these new investments were worth \$2.03B for an IRR of 393% and a MOIC of 5.2X

Follow along, in 2021, if you want to play...

1.8K

2.6K

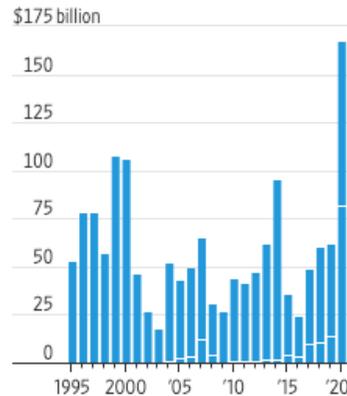
31.1K



SPACtacular Year

This year was a record breaker by dollars raised...

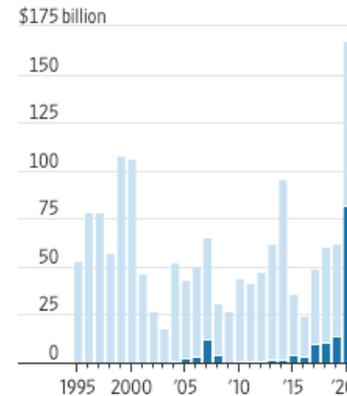
■ Money raised in U.S. IPOs



Note: 2020 data as of Dec. 24
Source: Dealogic

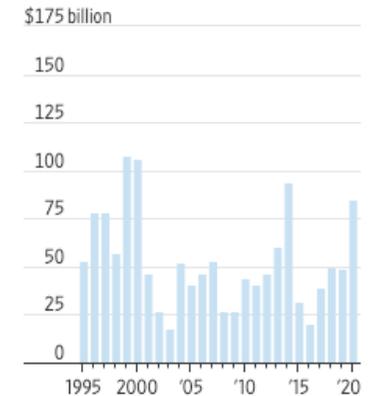
... and blank-check companies raised far more than ever before.

■ Blank-check IPOs



Taking SPACs out of the equation, 2020 was no longer a record year for IPOs.

■ Traditional IPOs



REMEMBER ECORP? IPO 28 JUNE 1999 AT \$1.20

The two Packer profits were a great example. Mr Packer's Publishing and Broadcasting (PBL), which includes magazines, Channel 9 television and the Crown casino business, released interim net profits 53 per cent higher at \$153.7 million.

PBL's 80 per cent-owned internet offshoot, **ecorp**, also reported the same day, generating a half-year net loss of \$10.9 million on sales of \$30.8 million — figures that would barely rate a mention in the profits of the smallest of Australia's blue-chips.

What happened? Well PBL's shares moved 12 cents higher to \$13.32, yet **ecorp** rocketed 71 cents, or 11 per cent, to \$6.46.

At that price **ecorp** was worth an astonishing \$4.3 billion, almost half that of its PBL parent.

A recent research report by the US investment giant, Goldman Sachs, described **ecorp** as The Wizard of Oz and gave it a target price of **\$7.80**.

The report was dated 2 February and the **ecorp** share price was \$4.25.

SMH 17 Feb 2000

SMH 15 Jan 2001

Delisted April 2003

As announced on 10 December last year, if the proposal is approved, **ecorp** minority shareholders will receive payment of 55 cents for each of their shares in return for cancellation of those shares and **ecorp** will become 100% owned by the PBL Group. The Independent Expert has

Ecorp below issue as patience runs out

Cosima Marriner

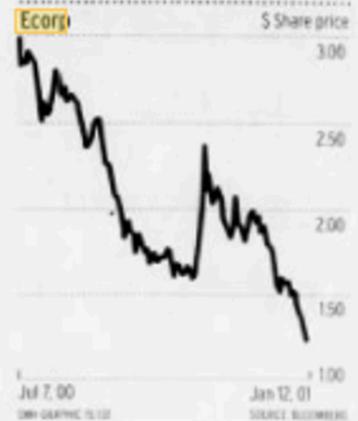
Despite plumbing record lows last week, Mr Kerry Packer's dot com play, **ecorp**, has further to fall, according to analysts.

Trading as high as \$8.60 a year ago, the Internet company Mr Packer spun out of Publishing & Broadcasting and floated in mid-1999 is now floundering.

In the face of consecutive gains by the Nasdaq, **ecorp** plunged 21 per cent last week to an all-time low of \$1.18 — below the \$1.20 issue price — on Friday amid growing unease about its inability to turn profits.

People are starting to look for profitability in these companies and sustained earnings growth," one Internet analyst said. "They are no longer willing to pay for stocks that aren't profitable and

MAGIC NOT ENOUGH



Wizard financial services business and Monster.com.au online recruitment business operate in highly competitive industries.

PUTTING METRICS AROUND THE ABNORMAL



- 956million shares
- But few people dilute for 253m options/RSUs
- Diluted equity capitalization: US\$1,064billion
- Enterprise value: ~US\$1,049
- Reverse engineer using “realistic” assumptions
- Assume EV/EBITDA multiple: 30x (~8x car cos)
- Assume US\$52k vehicle price (2x average car)

TO “GET” CURRENT TSLA SHARE PRICE REQUIRES SALES OF 3.6X 2021 PRODUCTION CAPACITY AT HIGHER MARGINS, CONSTANT 2020 AVERAGE PRICE, FIXED COST BASE AT 2020 LEVELS AND SHARE PRICE RATING 3.5X THAT OF THE COHORT COMPANY GROUP

ILLUSTRATIVE ASSUMPTIONS NEEDED TO MATCH CURRENT PRICE

- EV/EBITDA multiple: 30x
- Fixed cost base: \$4.2billion
- 20% operating margin
- No green credits
- 85% vehicles/15% energy
- Implies \$39.2billion op. profit
- \$167bn vehicle revenue
- Implies 3.2million cars
- 3.5% peak global sales (91m)

- Average car company: ~8x
- LTM fixed costs: \$4.085billion
- LTM 17.3% excluding green credits
- LTM \$1,312m green credits booked
- 86% vehicles; 14% energy op. profit
- LTM \$4.6bn excluding green credits
- Estimated 2020: ~\$25.4billion
- Current capacity: 790k
- Currently 0.7%

STOCK SHORTS IN ALPHABETICAL ORDER

| Company | Brief comment |
|---------------------|---|
| Afterpay Touchcorp | valuation insanity, unmoated business model, regulation |
| Andromeda Resources | excessive price for resource company at development stage |
| Apple | earnings continually repriced |
| Bank of California | CLO equivalent to 105% tangible common |
| EPR Property | cinema space exposures |
| Freshpet | see below; capital consumptive |
| HUB 24 (hedge) | hedge to lock in Xplore Wealth takeover pricing |
| Paycomm Software | US\$25.4bn equity cap cf US\$160m OCF (ex SBC) |
| Penumbra | Catheter device problems/questionable disclosures |
| Promedicus | A\$3.3bn equity cap cf 2020 A\$33m adjusted OCF |

STOCK SHORTS IN ALPHABETICAL ORDER #2

| Company | Brief comment |
|----------------------------|---|
| Seek | High debt, extreme valuation |
| Sezzle | Ludicrous valuation, questionable business model |
| Snowflake | US\$51bn equity cap cf \$600million revenue |
| Stifel Financial | CLO exposure equivalent to 221% tangible common |
| Tesla | see prior |
| Trupanion | see below |
| van Eck Semi Conductor ETF | excessive valuations |
| Wisetech Global | \$9bn equity cap versus \$70m pre-tax “proper” OCF |
| Zoom Communications | \$100bn equity cap cf \$2.6bn revenue & competition |

MORE CRAZY BOOMS IN 2020



L-R: Jam, Brady, Lyla, Ollie

PET FOOD & INSURANCE: VERY “VALUABLE”



“single minded mission to bring the power of real, fresh food to our cats & dogs”

- TTM sales (9/20): US\$300million
- TTM OCF (9/20): US\$26million
- SBC in OCF: US\$13.5million
- TTM capex: >\$100million
- > 22,000 “Freshpet fridges”
- \$94million cash

EQUITY CAPITALISATION: US\$5,980M



“data driven approach provides highest value medical insurance for their pets”

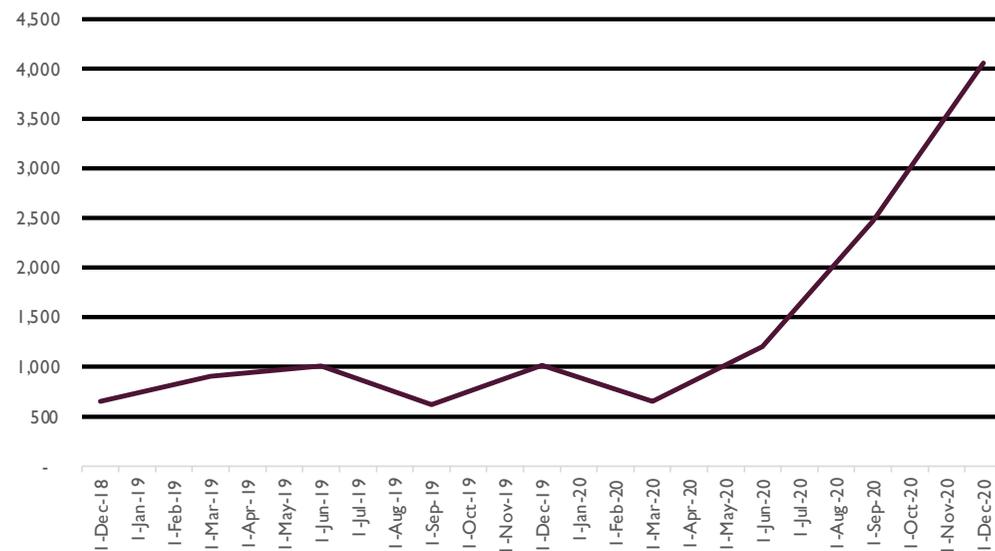
- Tangible book value US\$337million
- Subscription pet insurance model
- TTM revenue (9/20): US\$465m
- Loss making
- Net cash US\$150m after recent placement

EQUITY CAPITALISATION: US\$4,478M

TRUPANION

- Subscription model has 553k pets at 30/9/20
- Average annual revenue per pet US\$730
- Annualised churn ~16%
- Based on margins (before marketing etc) lifetime value of pet = US\$615
- Acquisition cost/pet last quarter = US\$532
- Value of existing “book”: US\$615 x 553k = US\$340million
- Add cash = \$490million
- Calculate “value of future business”

TRUP: Equity market's value of future business (\$mn)



TRUPANION EQUITY: MARKET VERSUS REALITY



- Old shorts forced out
- New business now priced at 11x existing book!!
- Acquisition costs understated
- Rolling 4Q costs up from US\$458/pet to US\$547 since June 2019
- Insurance companies with surge in policies?
- Store of trouble as pets age

WHY MIGHT A COMPANY BE UNDERPRICED?

- Family controlled
- Complex
- Moving parts
- Differing streams of value – earnings, investments, loss-making future plays
- Exposure to “out of favour” markets
- Multi-industry (conglomerate)
- Entrepreneurial, controversial
- Too hard, small or illiquid to analyse and cover

DEEP, DEEP, DEEP DISCOUNT TO VALUE: XPLORE WEALTH

- Acquired shares in XPL at ~5c per share = market capitalisation of \$15million
- Effective EV/EBITDA of ~6x
- Larger platform providers (NWL, HUB24, Praemium) ~ 30-40x EV/EBITDA
- FuA of >\$15BILLION (0.1% MC/FuA) cf “majors” at 11% (NWL) & 7.3% (HUB24)
- Tie-up with SS&C
- Excellent technology for global investing – but client concentration risk
- Fallen angel – 45c in mid 2016 before poor acquisition (Linear)
- Praemium had already acquired Powerwrap before this on 28 October 2020:

Xplore shareholders to receive total value of \$0.20 per share comprising 50% cash and 50% HUB24 shares, but with flexibility to elect to receive all cash or all shares (subject to scale back if cap limits are exceeded). The transaction values 100% of Xplore equity at \$60 million.

Significant takeover premium of 203% to the last closing price of Xplore shares prior to the date of this announcement.

WHY MIGHT YELLOW BRICK ROAD BE UNDERVALUED?

- Microcap
- Top six shareholders control 70% of shares
- 49.6% explicitly friendly to management
- Illiquid microcap
- RTO float process in 2010/2011
- Macquarie came and went
- 64 yo “Personality”
- Strategic change: May 2019
- No broker coverage
- Last investment presentation in October 2017

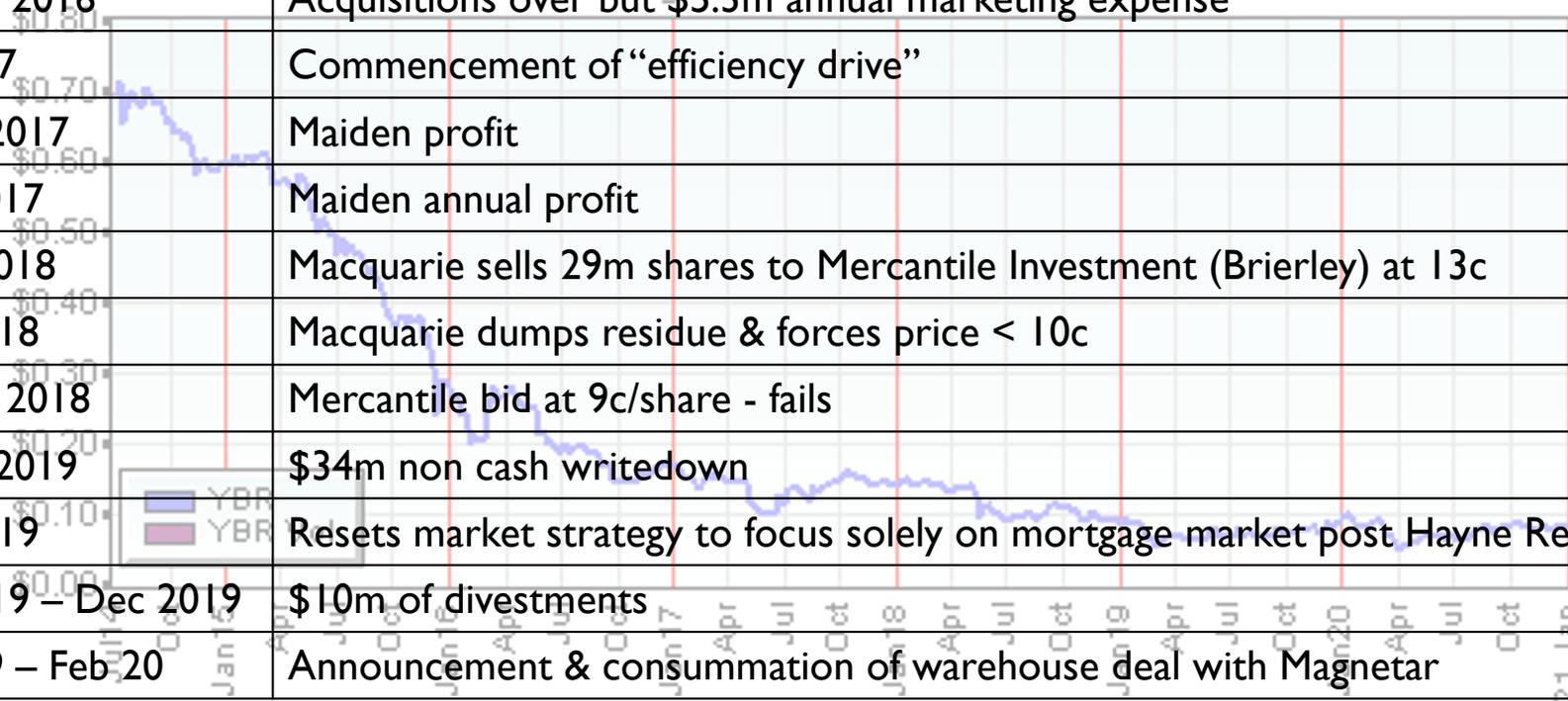


YELLOW BRICK ROAD: BUILD TIMELINE

| | |
|---------------|--|
| 2007 | established as private company – “holistic” financial advice and product |
| July 2009 | 16 retail branches |
| December 2010 | Acquired by public company ITS in RTO – valued \$33.6m |
| June 2011 | ITS reinstated to ASX; \$12.5m raise at 40c |
| Sept 2011 | Channel 9 investment \$13m - \$6.5m cash at 40c |
| December 2012 | \$7m placement; \$6m to Macquarie at 40c |
| June 2013 | \$10m placement; \$7m to Macquarie at 70c |
| May 2014 | Acquired Vow for \$17.6m (\$11m shares; residue cash) |
| July 2014 | Acquires Resi Mortgage Corp for \$33.6m |
| July 2014 | \$42m share placement at 70c |
| August 2014 | Macquarie own 51m shares at average 61c = 18.4% |

YELLOW BRICK ROAD: RESET TIMELINE

| | |
|----------------------|---|
| Year to 2016 | Acquisitions over but \$5.3m annual marketing expense |
| FY 2017 | Commencement of “efficiency drive” |
| HI FY2017 | Maiden profit |
| June 2017 | Maiden annual profit |
| April 2018 | Macquarie sells 29m shares to Mercantile Investment (Brierley) at 13c |
| May 2018 | Macquarie dumps residue & forces price < 10c |
| August 2018 | Mercantile bid at 9c/share - fails |
| March 2019 | \$34m non cash writedown |
| May 2019 | Resets market strategy to focus solely on mortgage market post Hayne Report |
| July 2019 – Dec 2019 | \$10m of divestments |
| Sept 19 – Feb 20 | Announcement & consummation of warehouse deal with Magnetar |



WHAT'S IN YELLOW BRICK ROAD?

VOW FINANCIAL
(mortgage aggregator; 1400 brokers)
~ \$40billion loan book

RESI MORTGAGE CORPORATION
(manufacturer from wholesale)
~\$2billion loan book

YELLOW BRICK ROAD
(franchise business ~ 117 shop fronts)
~\$8billion loan book

RWF (50%)
(warehouse funding structure underpinned by
Magnetar "equity" tranches)
Bank funding to \$250million

VALUATION CROSS-CHECK

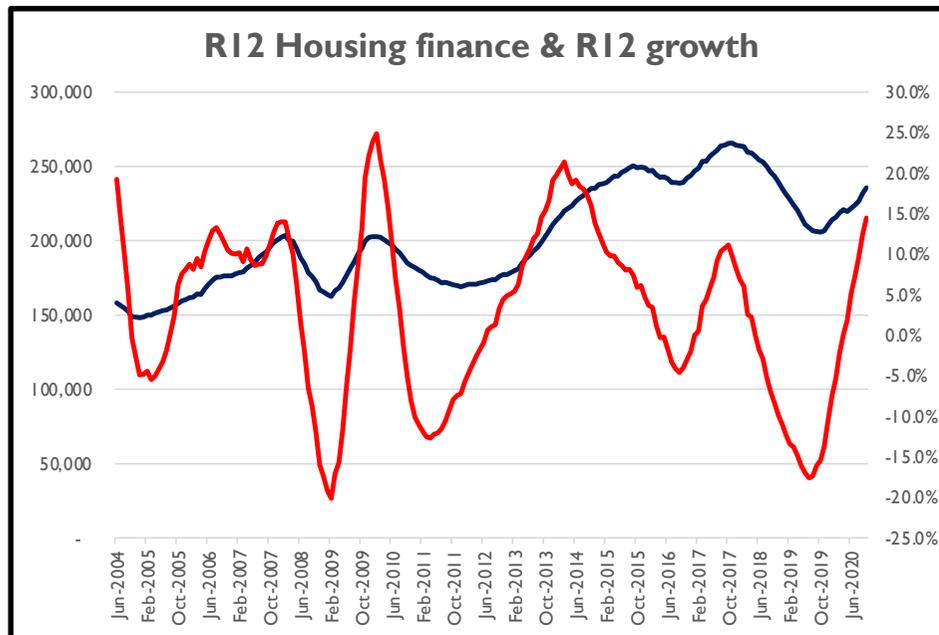
| unit | \$mn valuation | comments |
|---------------|----------------|--|
| Vow Financial | 34.0 | 28bp of settlements/8.3bp of loan book metrics in AFG takeover of Connective |
| YBR/Resi | 12.0 | Higher metric based on significantly higher margins on \$10bn combined book |
| 50% RWF | 18.0 | Magnetar cash injection for its share as credit support |
| Net cash | 6.7 | As at 30 September 2020 |
| TOTAL | 70.7 | equivalent to 21.8c per share pre corporate |

NPV of NET trail in 30/6/20 accounts =
\$44.6million cf \$46mn valuation

Listed NON-banks with RMBS (not BNPL) warehouses:

Challenger (market cap A\$4,567m)
 Resimac (market cap A\$897m)
 AFG (market cap A\$727m)
 Liberty (\$2,348m)
 YBR (\$27m)

CATALYSTS TO REALISE VALUE?



- Improved finance conditions not yet in public figures (Q4 CY2020)
- Execution in area of REAL expertise (Wizard v2.0)
- Changing marketplace from competitor sales (AFG/Connective)
- Growth in RWF warehouse loans
- Eventual RMBS issue by RWF warehouse
- Get to critical mass
- Merger/sale?

December 2017:

Blackstone acquires 80% of LaTrobe Financial
KKR buys Pepper for \$675million

PARKING ALONGSIDE THE FAMILY INVESTORS

| unit | price | (E) value | controllers | comments |
|-------------------------------|--------|-----------|-------------------|---|
| E-L Corporation | C\$799 | C\$1600 | Jackman family | Empire Life/UCL/own global equities |
| EXOR NV | €67 | €99 | Agnelli family | Fiat/CNHI/Ferrari/Partner Re – latter very attractive |
| Treasure ASA | NOK20 | NOK32 | Wilhelmsen family | Based on Hyundai Glovis price ~KRW200k + cash |
| Vahli Inc | US\$17 | US\$41 | Simmons family | <4% public float; key asset control stakes in Kronos (TiO2) |
| AVERAGE 44.5% DISCOUNT | | | | |

| unit | CAPITAL MANAGEMENT INITIATIVES 2020 |
|-----------------|--|
| E-L Corporation | Two buy backs captured 8% of capital at >50% discount to NAV; worth >C\$280m accretion |
| EXOR NV | Fiat/Peugeot merger (Stellantis) + buybacks + attempted sale Partner Re + attempted split CNHI |
| Treasure ASA | Two very small buy-backs in past year at ~50% discount to prevailing NAV but recent Glovis sale gives flex |
| Vahli Inc | Cancelled \$600million of (family owned) tax related preference shares for zero!! |

WHERE TO FROM HERE?

| | | | | |
|---------------------------|---------------|---------------|-----------------------|--|
| 389% GROSS EXPOSURE | 196% LONG | | 2% NET EXPOSURE | |
| | | 117% INDEX | | |
| | 193% SHORT | 76% STOCKS | | |

- Barbell strategy
- Cheap core long holdings; number of small short fad stock positions
- Market environment should be more amenable
- Monetise franking credits where possible: \$318k = 3.5c dividend capacity
- Five-year anniversary in June 2021
- Any decisions to change subject to shareholder approval

SOURCE & ATTRIBUTION NOTES

4: Standard & Poors

5: Wall St Journal 30 December 2020

6: Sydney Morning Herald (newspapers.com)

13: Compiled by East 72 Holdings from company data

14: Nasdaq.com

16: Compiled by East 72 Holdings; XPL Scheme Booklet (18 December 2020)

21: East 72 Holdings compilation and estimates

22: Australian Bureau of Statistics compiled by East 72 Holdings

23: East 72 Holdings compilation and estimates