



# CLIMBING CRANES: RISKY BEHAVIOUR

EAST 72 HOLDINGS LIMITED: INVESTOR PRESENTATION

MAY 2019

ANDREW BROWN

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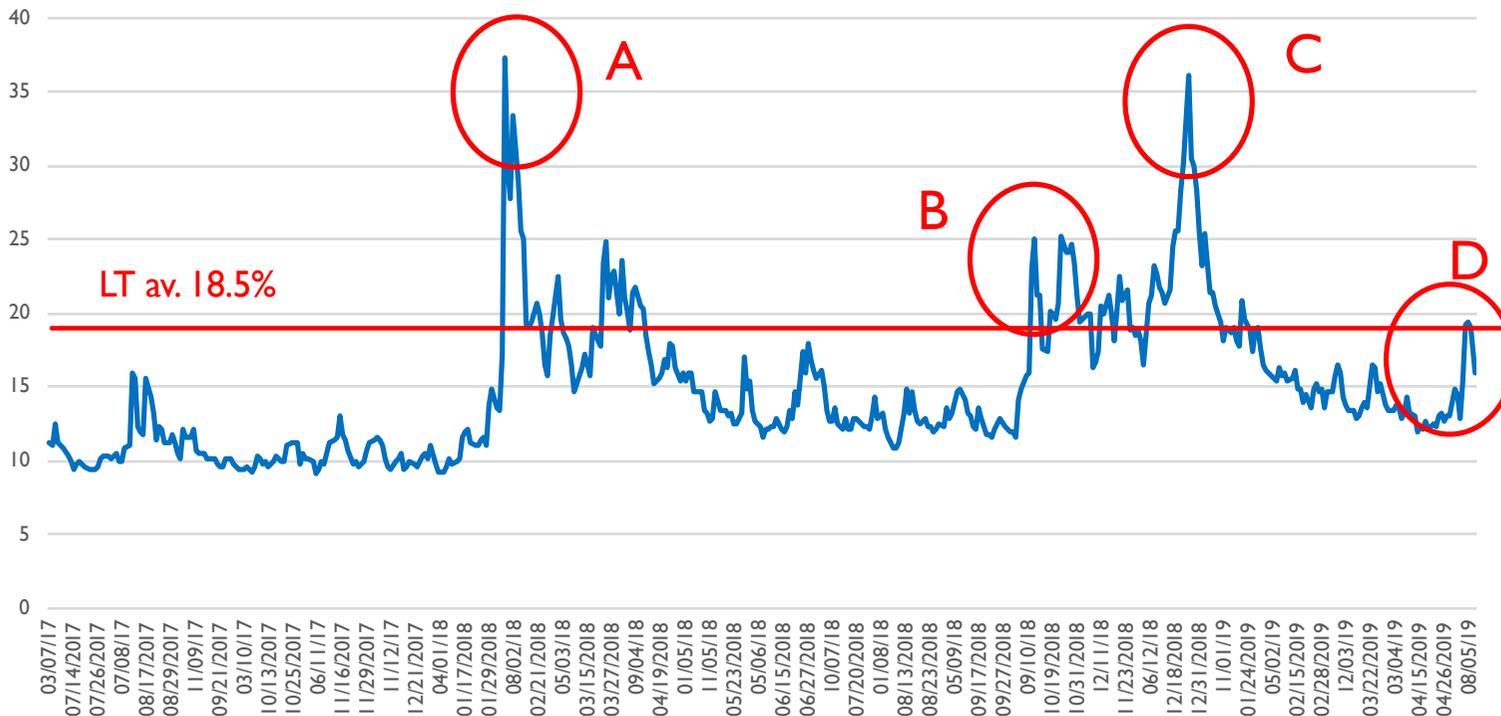
## **Risks**

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](http://www.east72.com.au/about-us) for a more fulsome description of the risks inherent within E72.

## CLIMBING CRANES:AGENDA

- How the Uber Syndrome causes sporadic volatility
- A guide to global debts
- How volatility impacts on performance of growth versus value
- Funny goings on: Markets, semi-conductors, Australian mid-caps,
- Coping with being on top of the crane
- Bollore/Financiere de L'Odet
- Madison Square Garden Company
- Macquarie Group
- Conclusion

# VIX IMPLIED VOLATILITY: LOTS OF CALM – THEN BREAKOUTS



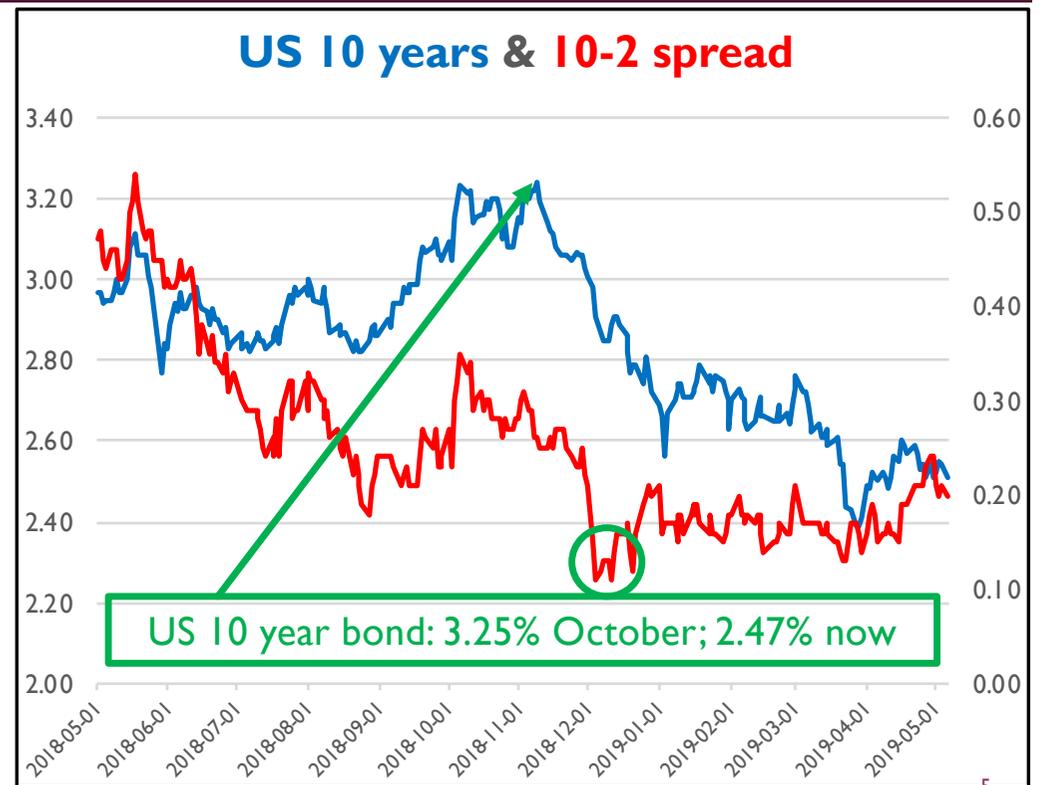
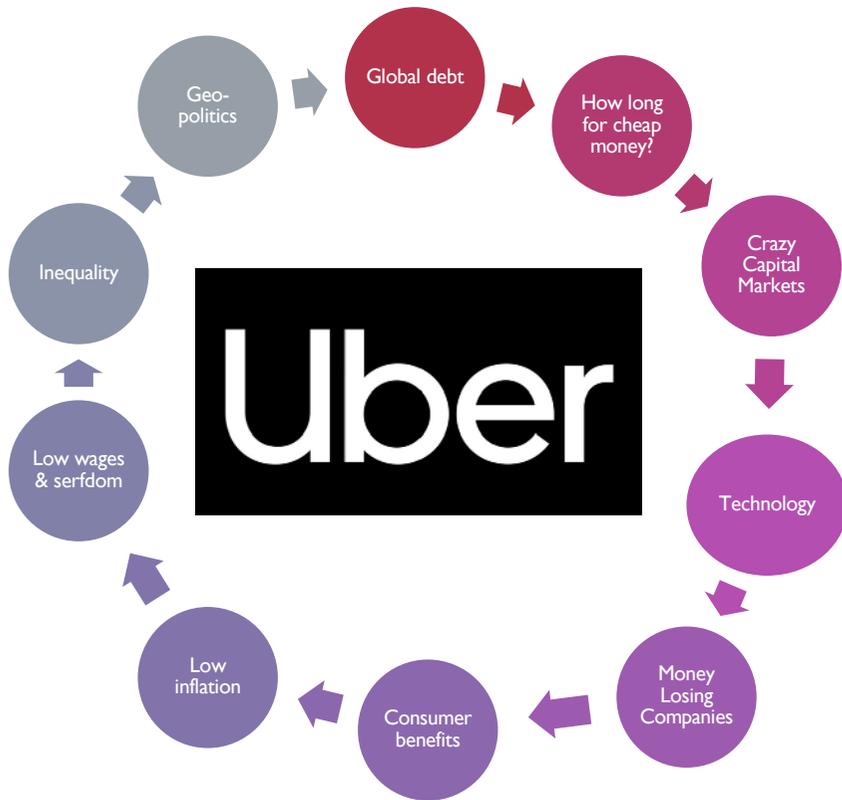
**A:**  
Feb 18: S&P falls 12% start of month to worst

**B:**  
Oct 18: S&P falls 11% start of month to worst

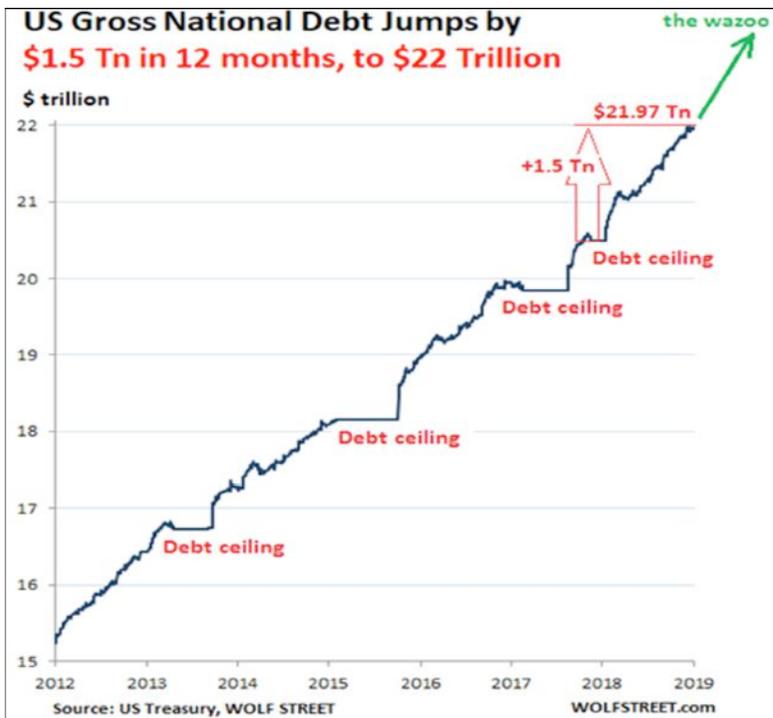
**C:**  
Dec 18: S&P falls 16% start of month to worst

**D:**  
Recent trade hiccups

# HOW "UBER SYNDROME" LEADS TO SPORADIC VOLATILITY



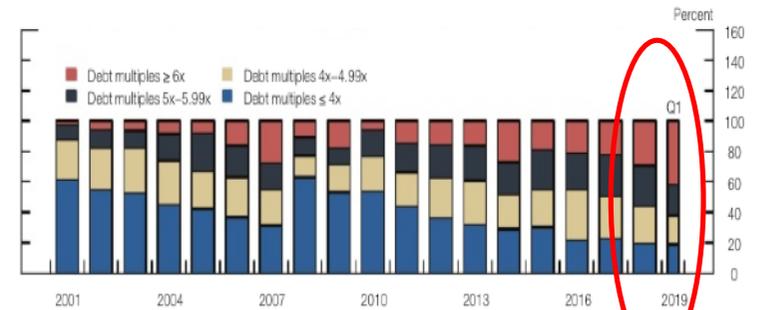
# US GOVERNMENT DEBT JUST KEEPS CLIMBING



# QT BLOWS OUT CREDIT SPREADS



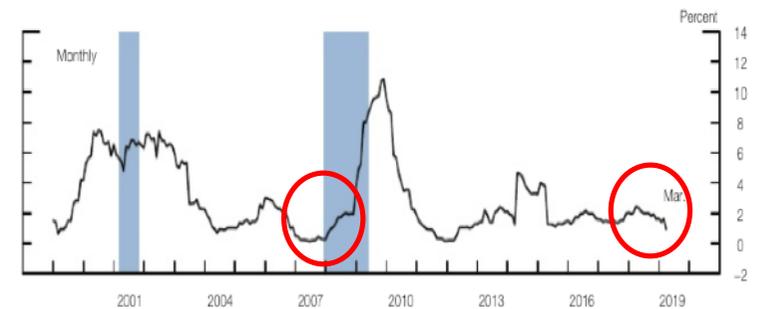
2-5. Distribution of Large Institutional Leveraged Loan Volumes, by Debt-to-EBITDA Ratio



Source: S&P Global, Leveraged Commentary & Data.

**MORE LEVERAGE**

2-6. Default Rates of Leveraged Loans

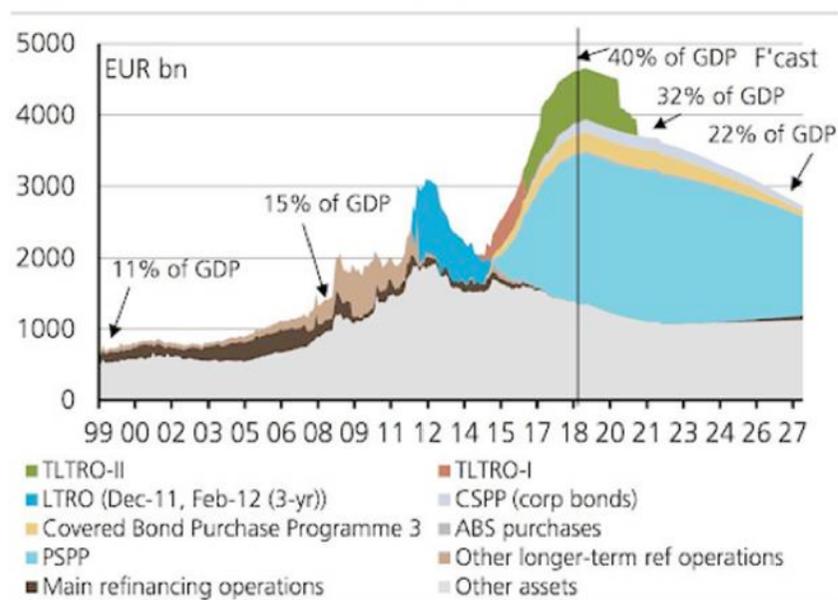


Source: S&P Global, Leveraged Commentary & Data.

**NOT FALLEN OFF CRANE - YET!**

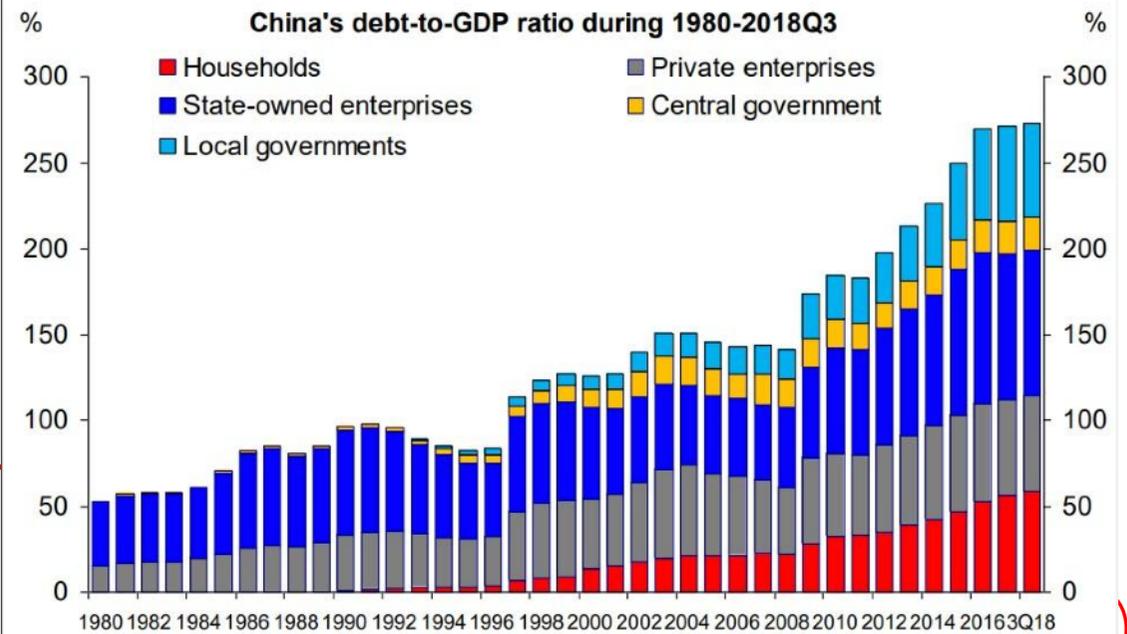
# NOT JUST AN AMERICAN PROBLEM

Figure 2: ECB balance sheet (projection until 2028)



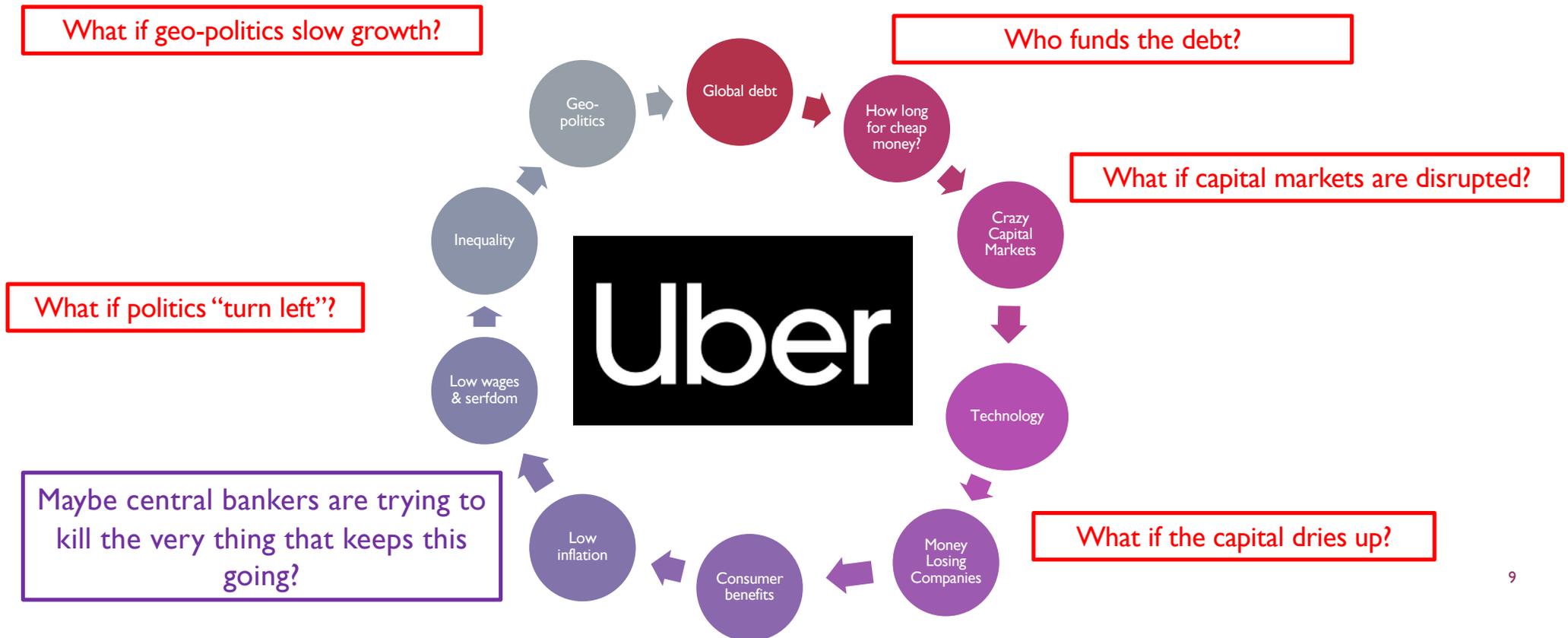
Source: Haver, ECB, UBS estimates

## China's willingness and ability to lever up is limited

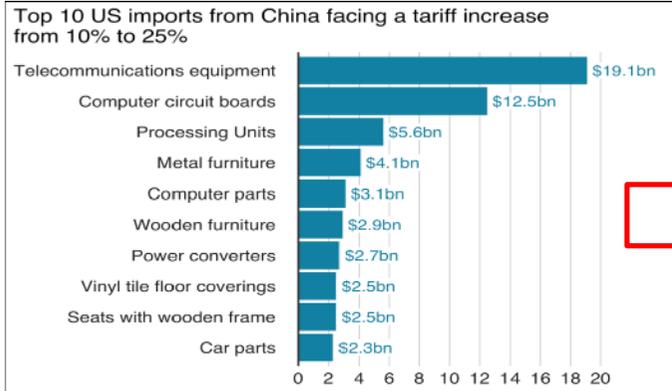
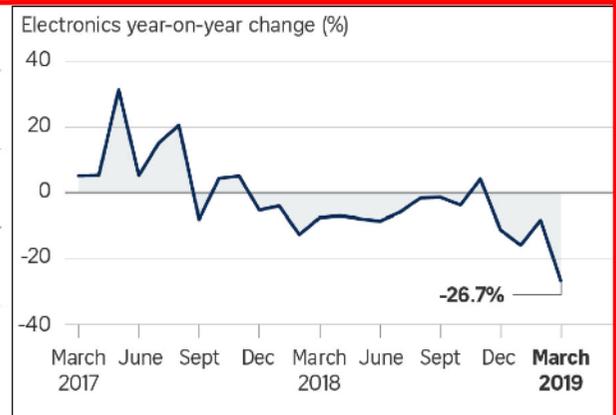
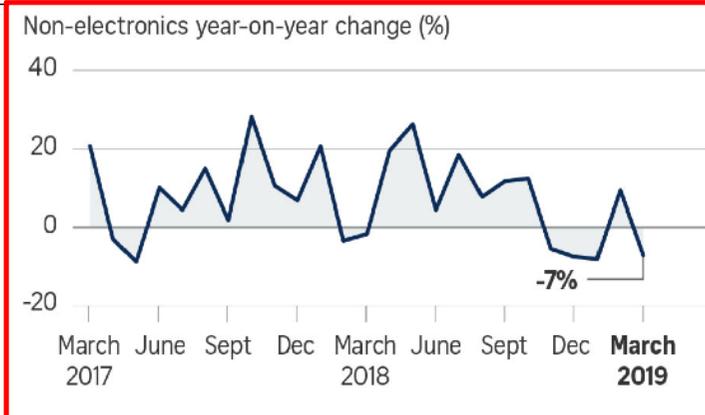


Source: Deutsche Bank estimates, PBOC, CBIRC, CIRC, SAFE, NBS, DB Global Research

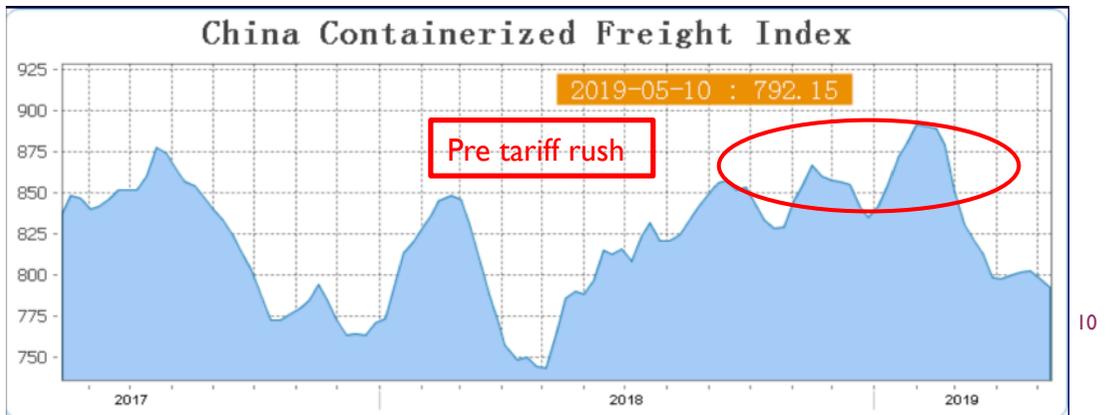
# CLIMBING CRANES: MARKETS VERY SENSITIVE TO MINOR CHANGES



# GEO-POLITICS & TRADE: A FEW "INTERESTING" CHARTS



Singapore



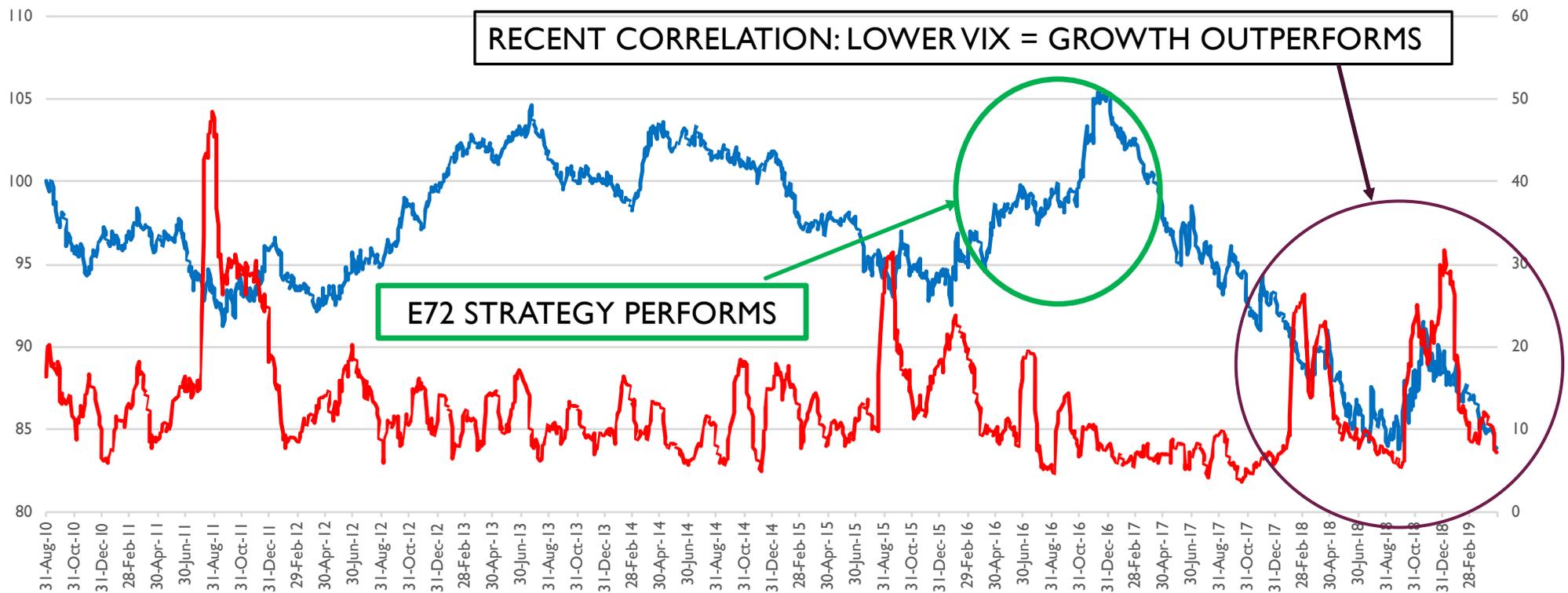
# HOW DOES VIX MANIFEST ITSELF? WHAT DO WE MEAN BY VOLATILITY?

S&P 500 INDEX PAST TWO+ YEARS BY MONTH

	RETURN	HIGH versus LOW		RETURN	HIGH versus LOW		RETURN	HIGH versus LOW													
Jan-17	1.8%	2.5%	<div style="border: 1px solid red; padding: 5px; display: inline-block;">Average 2017: 3.1%</div> <div style="border: 1px solid red; padding: 5px; display: inline-block; margin-top: 10px;">Average 2018: 7.8%</div>  <table border="1" style="margin: 10px auto;"> <thead> <tr> <th></th> <th>RETURN</th> <th>HIGH versus LOW</th> </tr> </thead> <tbody> <tr> <td>Jan-19</td> <td>7.9%</td> <td>10.8%</td> </tr> <tr> <td>Feb-19</td> <td>2.6%</td> <td>4.0%</td> </tr> <tr> <td>Mar-19</td> <td>1.8%</td> <td>5.1%</td> </tr> <tr> <td>Apr-19</td> <td>3.9%</td> <td>3.5%</td> </tr> </tbody> </table> <div style="border: 1px solid red; padding: 5px; display: inline-block; margin-top: 10px;">Average 2018: 5.8%</div>		RETURN	HIGH versus LOW	Jan-19	7.9%	10.8%	Feb-19	2.6%	4.0%	Mar-19	1.8%	5.1%	Apr-19	3.9%	3.5%	Jan-18	5.6%	7.1%
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Apr-19	3.9%	3.5%																			
Feb-17	3.7%	4.4%		Feb-18	-3.9%	12.0%															
Mar-17	0.0%	3.4%		Mar-18	-2.7%	8.4%															
Apr-17	0.9%	3.0%		Apr-18	0.3%	6.4%															
May-17	1.2%	2.8%		May-18	2.2%	5.7%															
Jun-17	0.5%	2.0%		Jun-18	0.5%	3.7%															
Jul-17	1.9%	3.2%		Jul-18	3.6%	5.5%															
Aug-17	0.1%	3.0%	Aug-18	3.0%	4.3%																
Sep-17	1.9%	3.0%	Sep-18	0.4%	2.7%																
Oct-17	2.2%	2.5%	Oct-18	-6.9%	12.9%																
Nov-17	0.4%	3.9%	Nov-18	1.8%	7.0%																
Dec-17	3.4%	3.4%	Dec-18	-9.2%	19.3%																

**Calendar 2017 return: 19.4%**      **Calendar 2019 to 30/4: 17.5%**      **Calendar 2018 return: -6.2%**

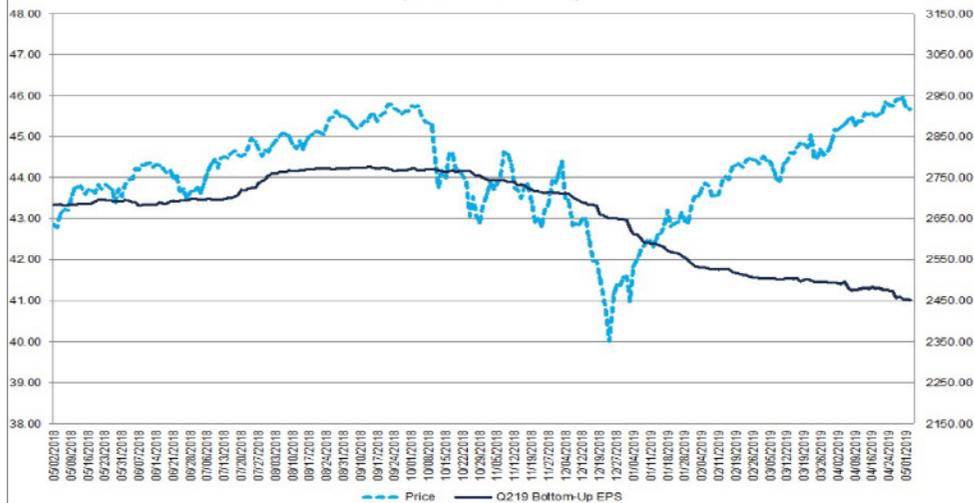
# VALUE/GROWTH VERSUS REALISED VIX



Russell 3000 (US) Value/Russell 3000 Growth indices 31 Aug 10=100 (LHS); S&P 500 1-Month Realized Volatility Index (RHS)

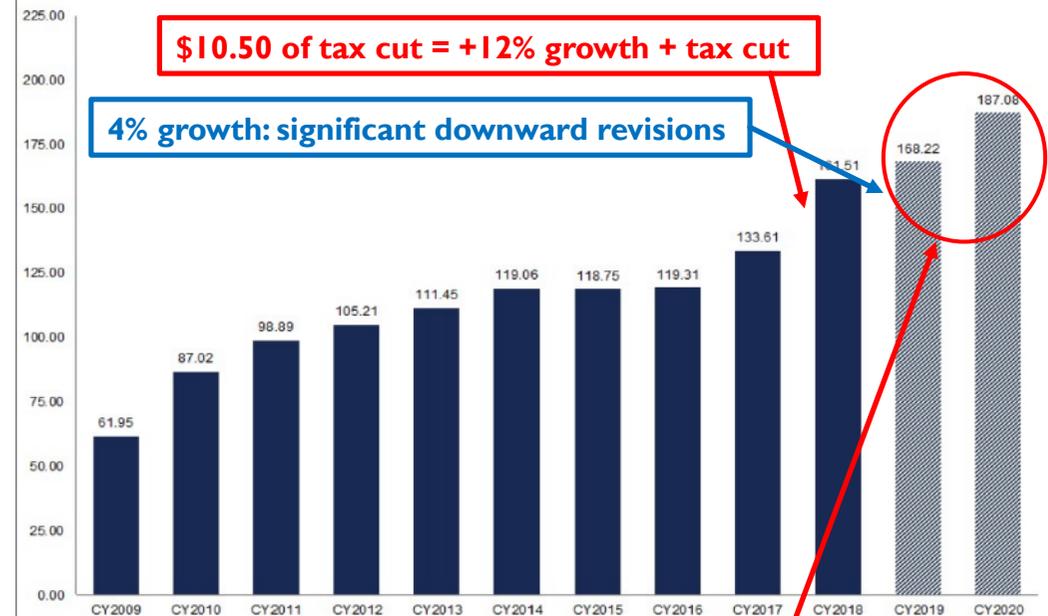
# MAJOR CHANGE IN EXPECTATIONS FROM END 2018

S&P 500 Q219 Bottom-Up EPS: 1-Year  
(Source: FactSet)



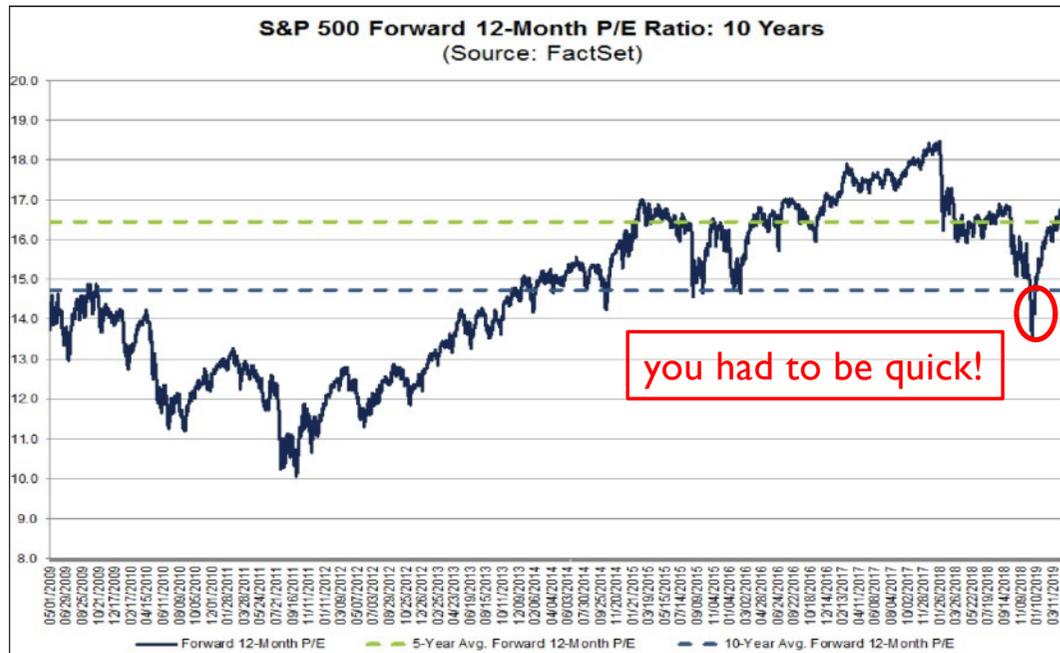
- BIG toll on Q2 earnings for S&P 500
- revised down 7% since October
- Tariffs to 10% & now realised new threat
- Oil price volatility
- European & China economic weakness

S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates  
(Source: FactSet)



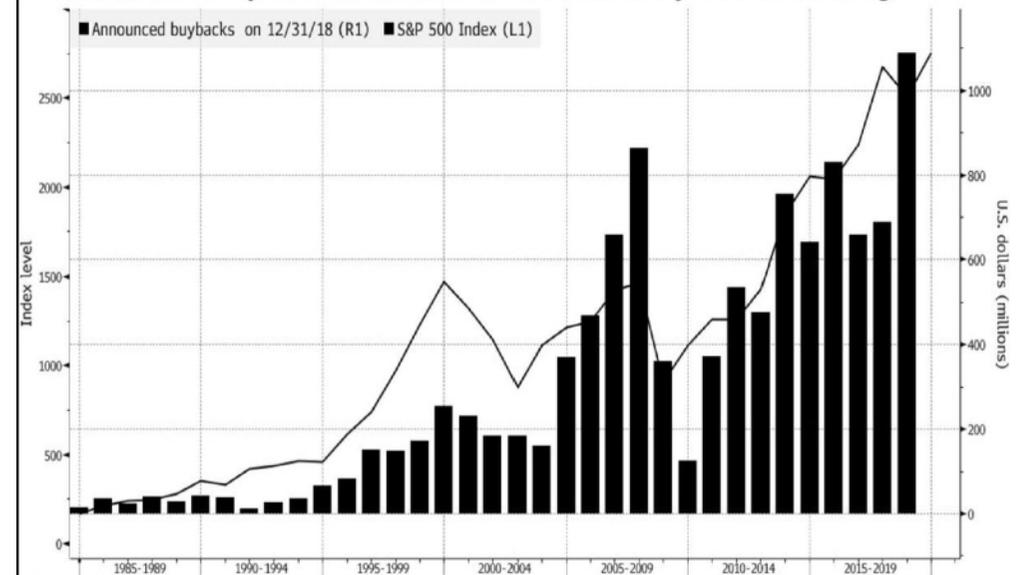
~11% growth in CY20 – really?

# MARKETS HAVE CLIMBED THE CRANE



## Record Buybacks

Announced share repurchases continue to rise after last year's all-time high



“...we hope to move much of our excess liquidity into businesses that Berkshire will permanently own. The immediate prospects for that, however, are not good: Prices are sky-high for businesses possessing decent long-term prospects....”

“Obviously, repurchases should be price-sensitive: Blindly buying an overpriced stock is value destructive, a fact lost on many promotional or ever-optimistic CEOs.” (Warren Buffett: 2018 Berkshire Hathaway Annual Report)

# SMART MONEY EXITING AGAIN?

AII Survey: % bullish

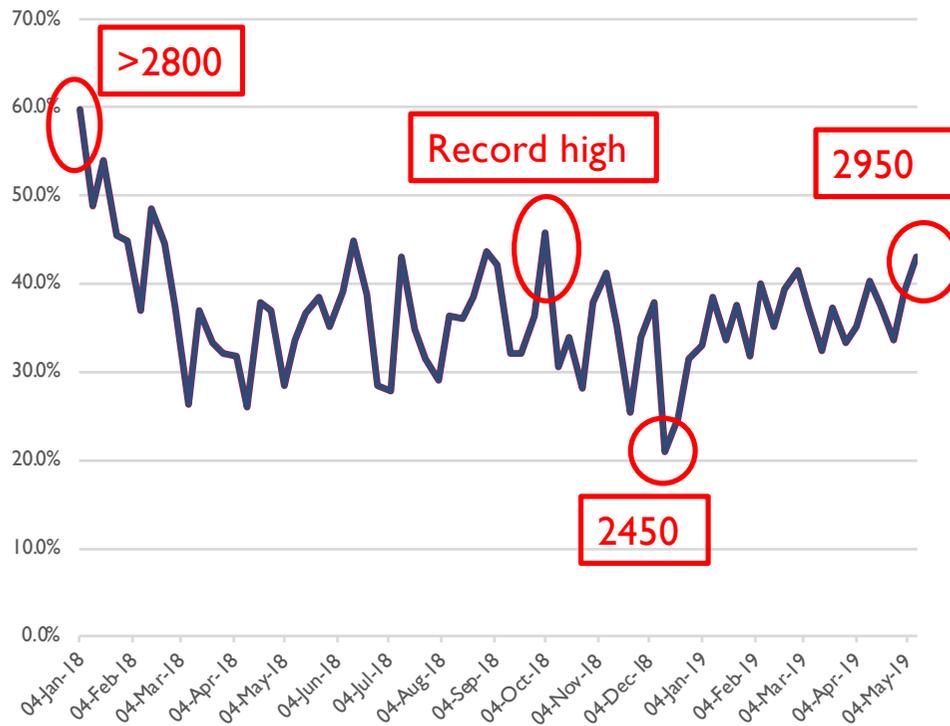
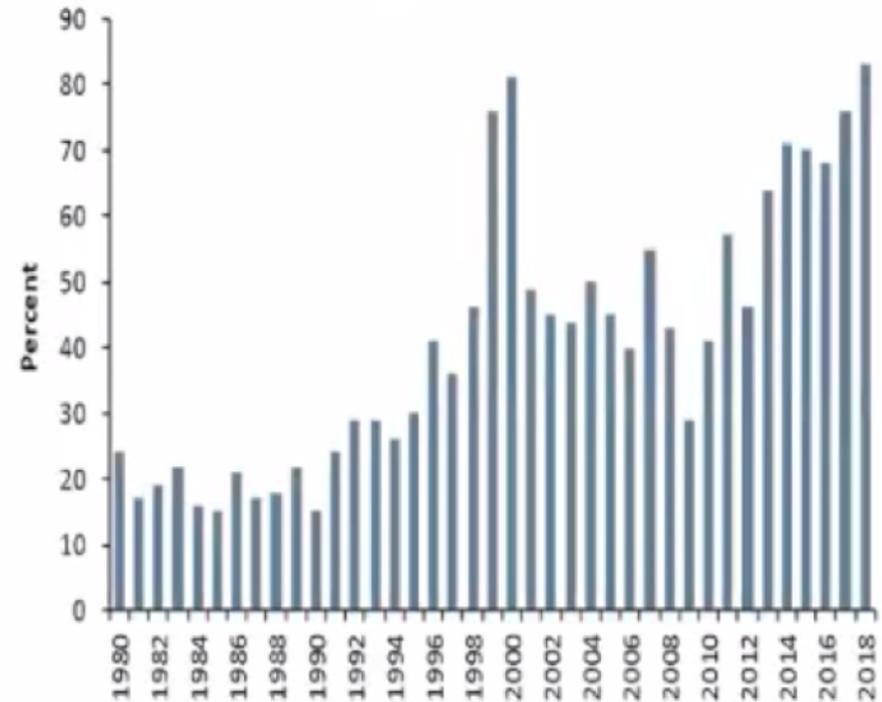
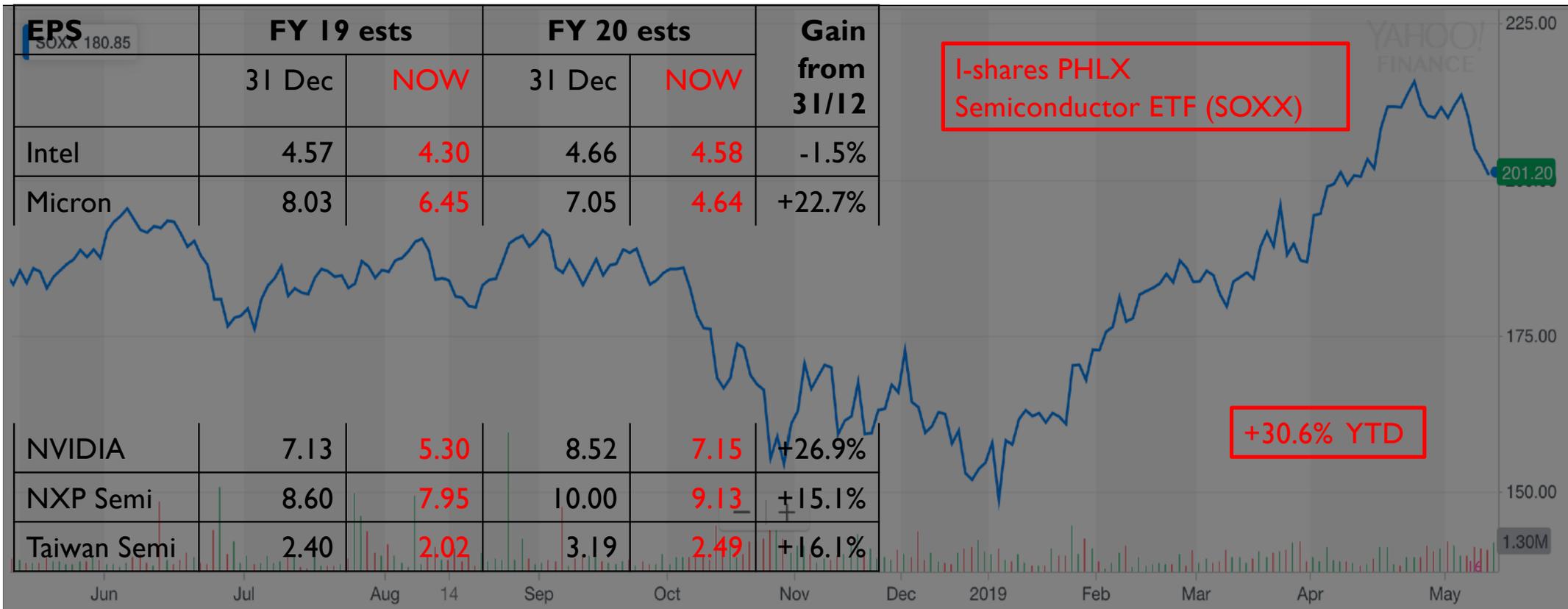


Exhibit 12: Percent of IPOs with Negative EPS



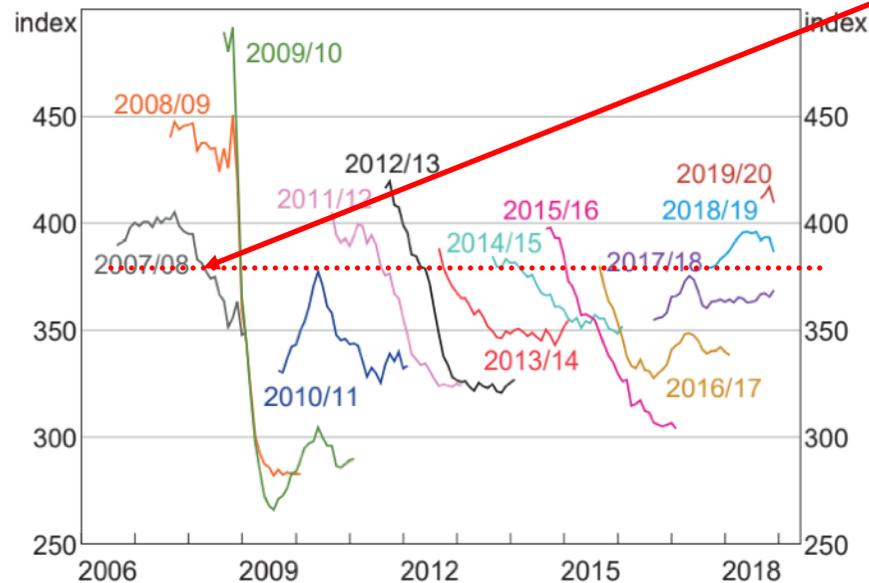
Source: Ritter, GMO

# SEMI CONDUCTORS HAVE CLIMBED A TALL CRANE



# FUNNY GOINGS ON IN AUSTRALIA

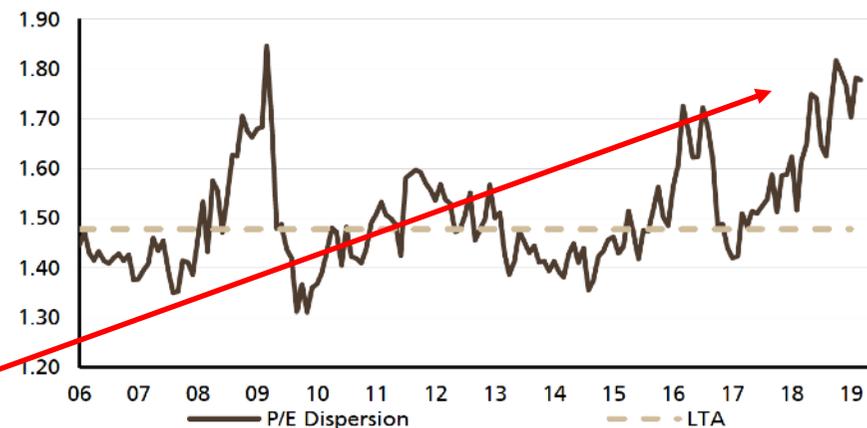
**Forecast Earnings per Share**  
MSCI Australia



Sources: MSCI; Refinitiv

**NO EPS GROWTH FROM 2008**

Forecast FY 2019 industrial ex-fins EPS  $\Delta$ : (3.4)%  
 Forecast FY 2019 industrial ex-fins EPS  $\Delta$ : 7.2%  
 Weighted P/E ratio FY 2019: 23.3x  
 Weighted P/E ratio FY 2020: 21.7x



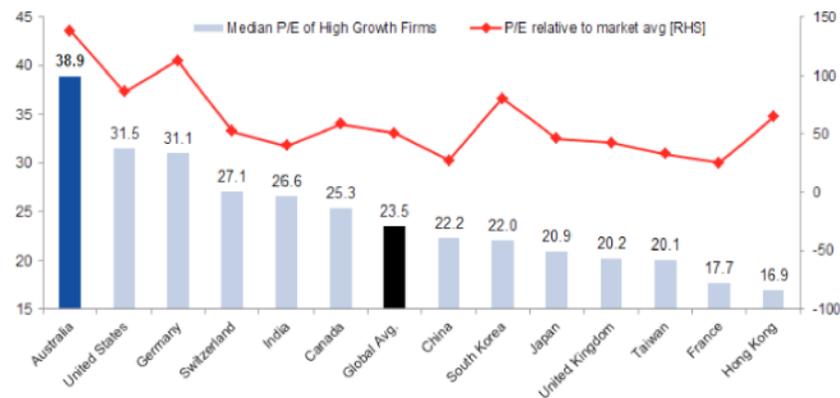
Source: FactSet, UBS, 80<sup>th</sup> percentile NTM P/E divided by 20<sup>th</sup> percentile NTM P/E

**SO INVESTORS PAY A BIG PRICE FOR GROWTH**

# AUSTRALIAN MID CAPS - HANDSTANDS ON TOP OF A CRANE!

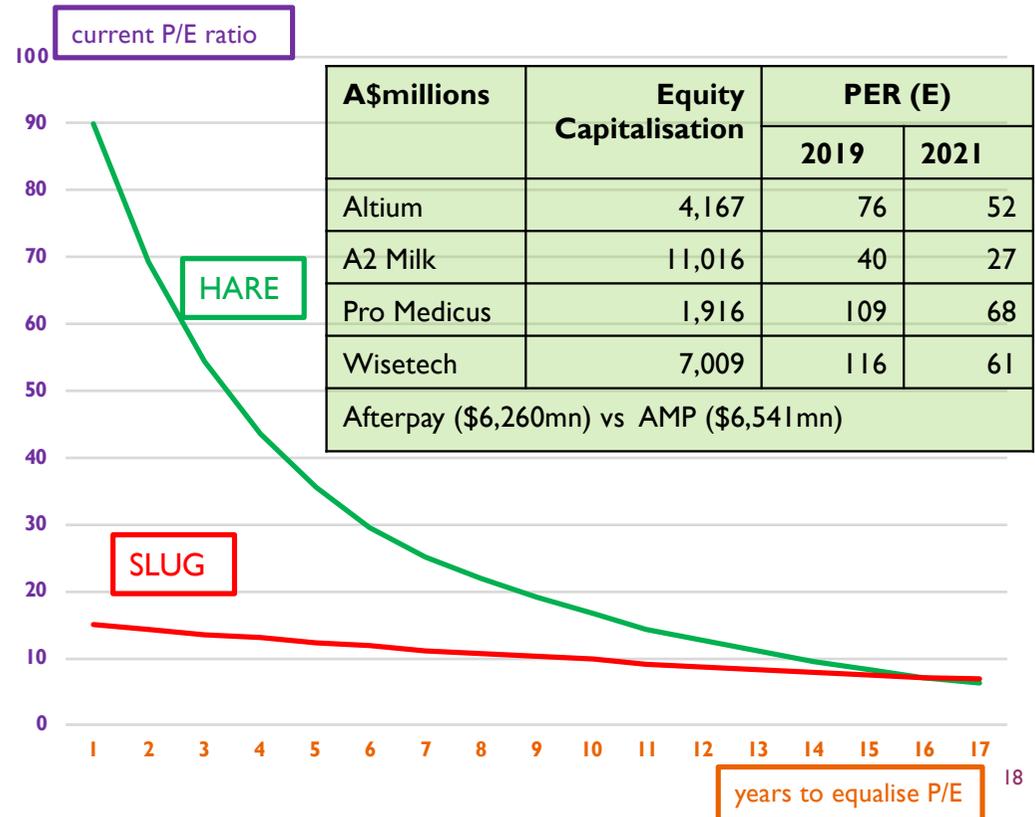
**Exhibit 1: High EPS Growth stocks trade at an average P/E of 38.9x, the highest multiple for growth stocks globally, as well as the largest premium to the local index.**

12mth forward P/E of stocks forecast to grow EPS by >20% p.a. over FY1 to FY3

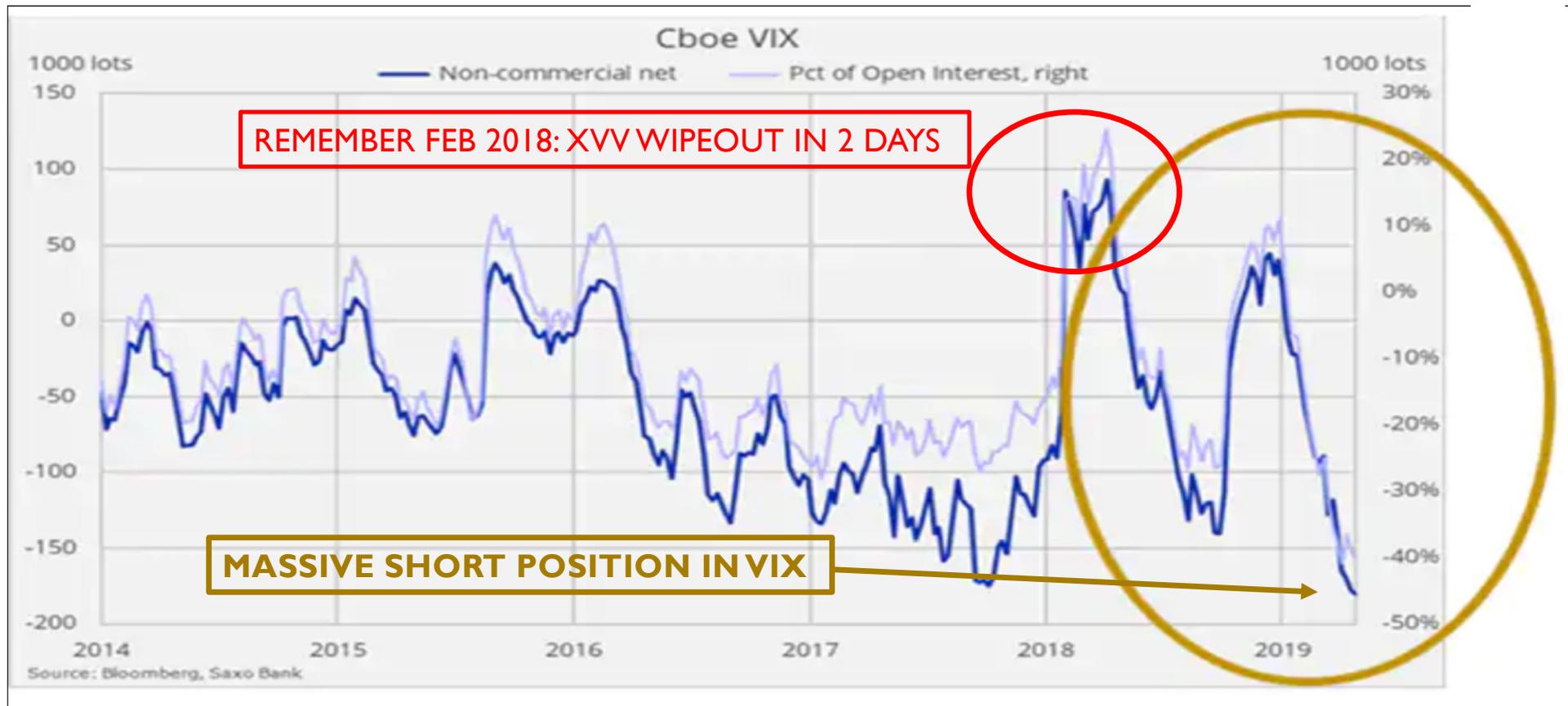


Source: Goldman Sachs Global Investment Research, Bloomberg

**A COMPANY ON A P/E OF 90X GROWING AT 18.5% PER ANNUM (WEIGHTED EARLY YEARS AT >20%) TAKES 15 YEARS TO EQUALISE P/E WITH ONE AT 15X GROWING AT 5%**



# VIX TRADERS: BLINDFOLD HANDSTANDS ON TOP OF CRANE!

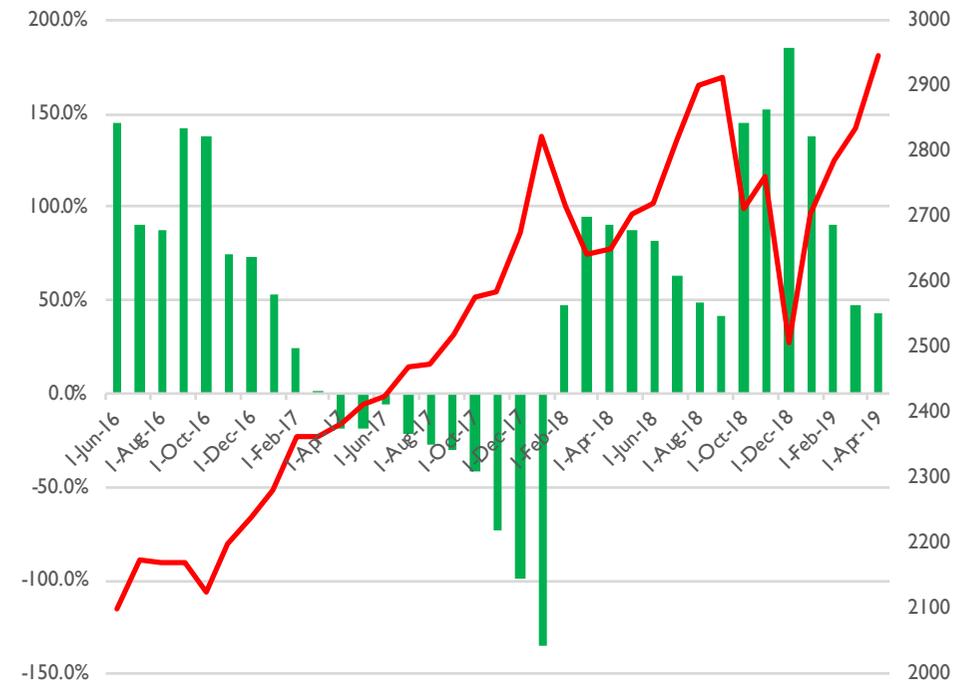


## WINDY ON TOP OF THE CRANE!

- Only moderate/compressed volatility priced into equities
- Markets have shown themselves to be very sensitive – “circle of necessity” of low rates/inflation
- Geo-politics and trade are a worry
- Markets have risen sharply against negative earnings in the hope of ?
- Growth At Any Price (business models) in vogue
- US equities sustained by share buy backs and retail investors
- Numerous non profitable IPOs
- Value investing utterly out of favour

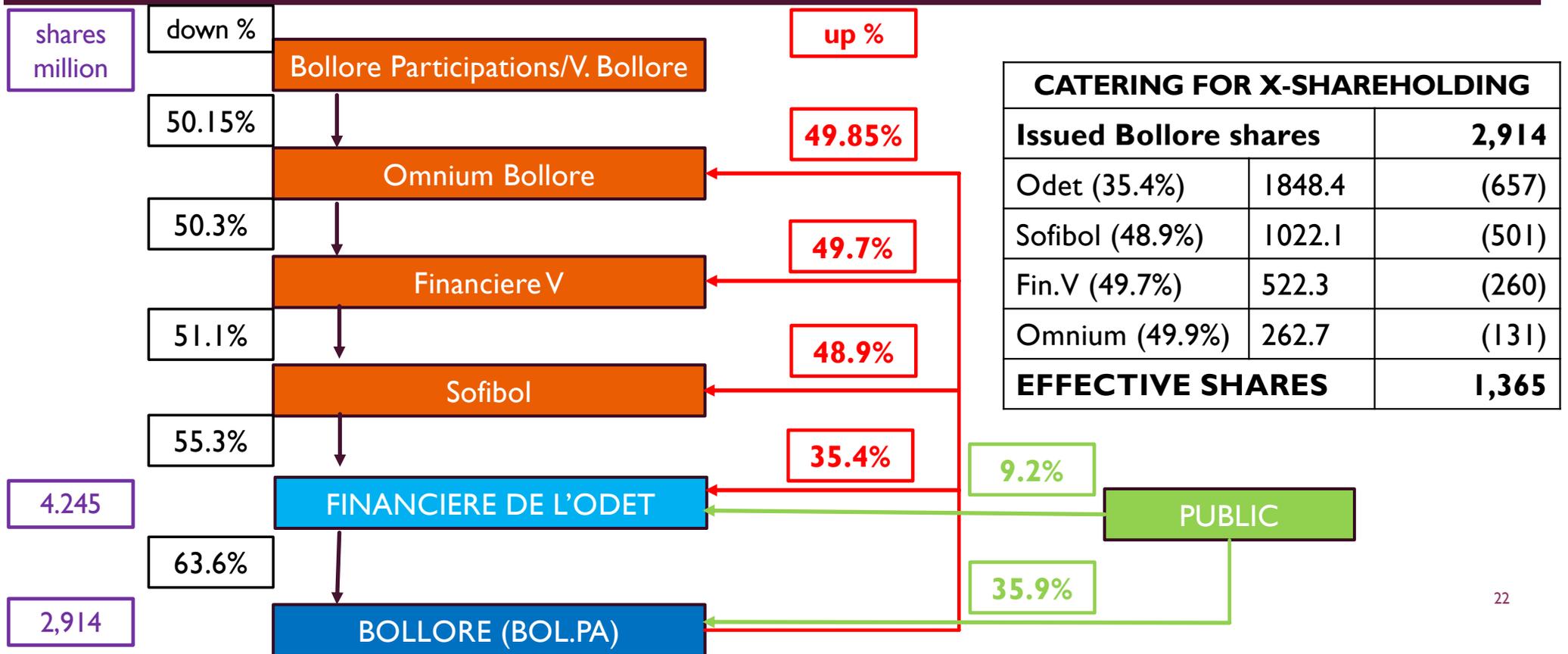
# HOW WE COPE WITH MARKETS ON TOP OF THE CRANE

SPECIALIST CHEAP (HARD TO ANALYSE) MARKET LEADING FINANCIALS	Virtu Financial; Goldman Sachs AerCap; Seaspan Blackstone/KKR Sberbank; Alleghany
OLD MEDIA = CHEAP CASH FLOW	News Corp; NZME Seven West; Prime Media
TEMPORARILY OUT OF FAVOUR ASSETS	Namoi Cotton; Gowing Brothers; MPC Containerships Vornado Realty Selected LICs (PGF/MAI)
IRREPLACEABLES WITH OPTIONS	EXOR; Alphabet; Disney; PICO; <b>Bollore</b> ; <b>MSG</b>
VERY DISTANT EARNINGS (& SBP)	Tesla; Netflix; Intelsat; SaaS stock basket;
MANIA	Afterpay; Altium; ProMedicus Equinix; WWE; Wisetech

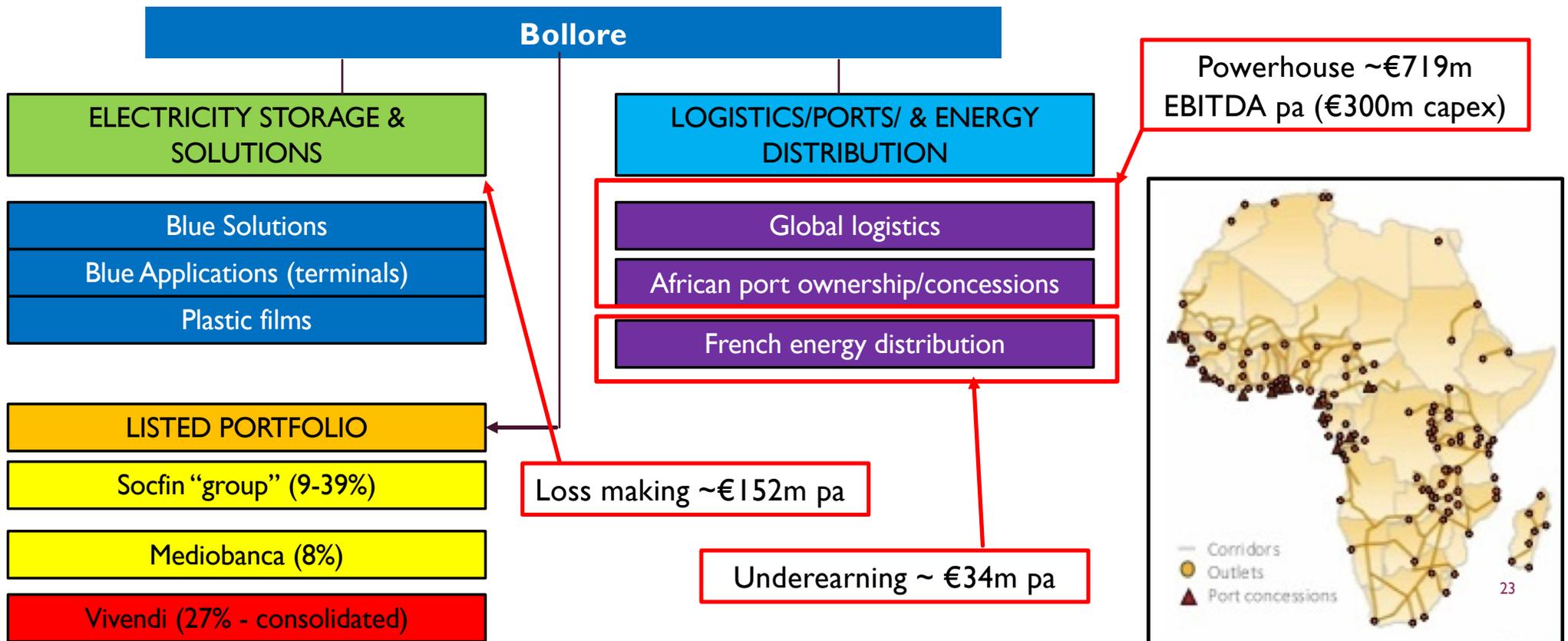


**E72 NET exposure (LHS) vs S&P500 (RHS)**

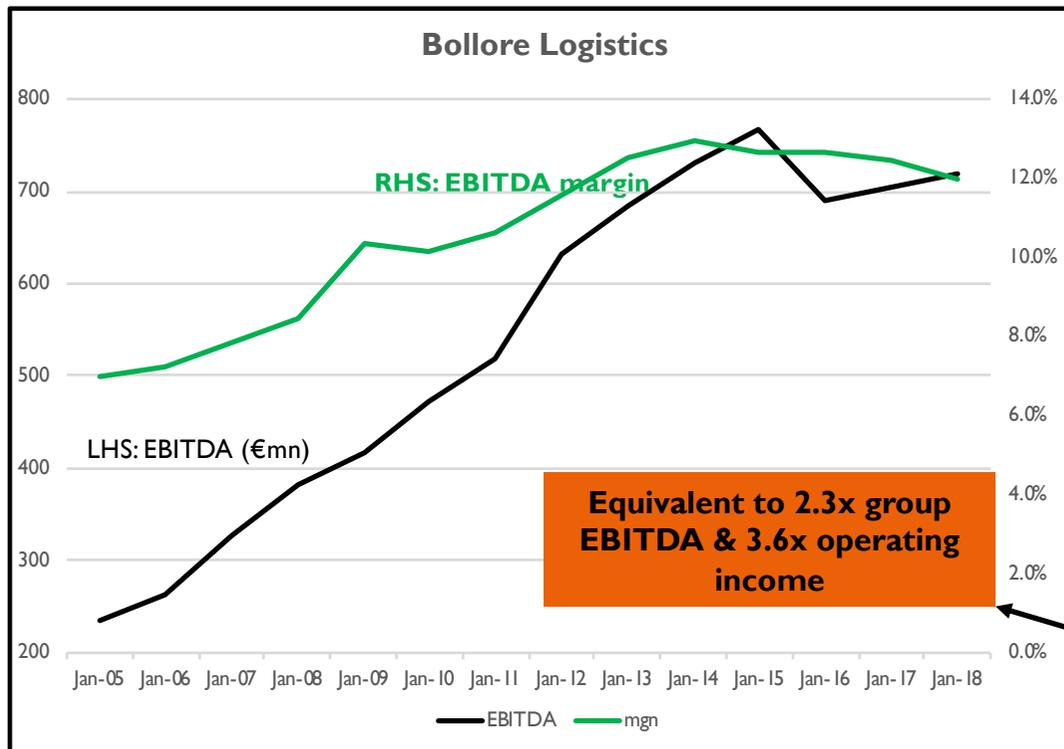
# BOLLORE: (REDUX 2017 AGM) "I WANT IT ALL"



# BOLLORE OPERATING STRUCTURE (EXCLUDING SELF OWNERSHIP)



# DISSECTING BOLLORE



€m - pre tax imposts	Pro-forma
Shares (excluding self ownership)	1,365
price	€4.13
Equity capitalisation	5,637
Net debt <sup>a</sup>	5,058
<b>ENTERPRISE VALUE</b>	<b>10,695</b>
Mediobanca (69.7m x €9.11)	(635)
Socfin/Socfinasia/Socfinaf <sup>b</sup>	(232)
343.2m Vivendi (27%) @ €25.41	(8,498)
<b>ENTERPRISE VALUE of OPS</b>	<b>1,330</b>

a: deconsolidates Vivendi; b: all Luxembourg Stock Exchange listed<sup>34</sup>

# FREEING UP THE VALUE: VIVENDI SPINS 50% UMG

## Universal Music Group's valuation just keeps on mushrooming.

The company's worth was being pegged at €29bn (\$33bn) by Deutsche Bank in early January, before Morgan Stanley upped the stakes. In mid-January, the latter bank suggested that Universal was worth \$29bn at a "base valuation" – but that in a "bull case", it could be worth anywhere up to \$42bn.

Now, that high-water mark has been hoisted skyward yet again. This time, it's JPMorgan, which has just stuck a gigantic €44bn (\$50bn) 'fair value' price-tag on UMG.

In a new report from JPMorgan Cazenove, media analyst Daniel Kerven describes UMG as "a unique asset" which owns and controls "undermonetized, must-have, global content that is strategic to the tech giants and can't be replicated".

The \$50bn valuation is worth no less than 48.8 times Universal's latest annual EBITA (earnings before interest, taxes, and amortization).

As revealed last week, UMG recorded a €902m (\$1.07bn) EBITA in 2018, with total yearly revenues – across records, publishing, merch and more – weighing in at €6.023bn (\$7.15bn).

Vivendi is busy working on the prospective sale of up to 50% of UMG to a buyer (or buyers). Due diligence on investment bank partners has begun, with a floor price to be set soon.

Vivendi: 1268m shares  
Market Cap: €31.4billion  
No net debt



Music Business Worldwide 18 Feb 2019



## FINANCIERE DE L'ODET: MASSIVE MARGIN OF SAFETY (& CATALYSTS)

- Vincent Bollore plans to retire on 17 February 2022: 200<sup>th</sup> anniversary of (origins of) Bollore Group
- Odet is the publicly listed controller
- Cements control of Vivendi???
- Potential for other capital returns; buyout of public?
- Odet is ultra-cheap due to 9.2% public float AND cross-shareholding complexity

	€mn
1,549m Bollore shares @ €4.13	6,397
Deconsolidated net debt	(158)
PRE TAX VALUE ODET.PA	6,239
<b>PER SHARE (3.539m)</b>	<b>€1,763</b>
<b>Share price discount (€880)</b>	<b>50%</b>
<b>Entry price to Bollore</b>	<b>€2.11</b>

Odet actually owns 1,858m Bollore, but the holding is reduced on elimination of the cross-shareholding

Odet actually has 4,245m shares on issue, but the share count is reduced on elimination of the cross-shareholding

# ANOTHER "CONTENT" PLAY: NBA & EVENTS



- \$24 BILLION nine year TV deal through 2025
- 30 teams, stats galore
- 82 game schedule + playoffs
- 108 INTERNATIONAL players on rosters
- Multi-cultural
- Ability to sell merchandise and SHOES
- Easy to play, no equipment or danger
- Complex lengthy team building process
- Genuine household name MEGA stars
- **ONE WAY TO INVEST**



12. Atlanta Hawks - o	29	53	.354	31	16-36	6-10	17-24	12-29	3-1	5-5	L 3
13. Chicago Bulls - o	22	60	.268	38	16-36	3-13	9-32	13-28	3-2	2-8	L 3
14. Cleveland Cavaliers - o	19	63	.232	41	15-37	4-12	13-28	6-35	0-1	0-10	L 10
15. New York Knicks - o	17	65	.207	43	11-41	2-14	9-32	8-33	2-1	3-7	L 1



## ~10% PER ANNUM IRR ON TEAM PURCHASES

US\$millions	Value	Rev	Op Inc	Last sale	when	IRR	vs prior Forbes values	US\$millions	Value	Rev	Op Inc	Last sale	when	IRR	
New York Knicks	4,000	443	155	1,100	Aug-97	6.2%		Washington Wizards	1,550	255	34	310	Jun-10	20.8%	
Los Angeles Lakers	3,700	395	147	67	Jun-79	10.7%		Phoenix Suns	1,500	235	47	401	Apr-04	9.4%	
Golden St. Warriors	3,500	401	103	450	Jul-10	27.6%		Oklahoma Thunder	1,475	241	10	350	Jan-05	10.9%	
Chicago Bulls	2,900	287	114	16	Jun-85	16.8%		Utah Jazz	1,425	243	59	27	Dec-85	12.8%	
Boston Celtics	2,800	287	100	360	Sep-02	13.4%		Indiana Pacers	1,400	222	50	5	Apr-83	17.4%	
Brooklyn Nets	2,350	290	53	200	May-10	33.2%		Denver Nuggets	1,375	222	47	450	Apr-00	6.2%	
Houston Rockets	2,300	326	103	2,200	Sep-17	3.6%	+33%	+36%	Milwaukee Bucks	1,350	204	25	550	Apr-14	21.2%
Dallas Mavericks	2,250	287	99	285	Jan-00	11.5%		Orlando Magic	1,325	223	64	85	Sep-91	10.6%	
Los Angeles Clippers	2,200	258	40	2,000	Apr-14	2.1%	+248%	+3%	Atlanta Hawks	1,300	215	42	850	Apr-15	12.3%
Miami Heat	1,750	259	40	68	Jun-95	14.8%		Cleveland Cavaliers	1,275	302	(13)	375	Jun-05	9.5%	
Toronto Raptors	1,675	275	76	400	Dec-11	22.7%		Detroit Pistons	1,270	235	52	325	Jun-11	19.9%	
Philadelphia 76ers	1,650	268	68	280	Oct-11	28.1%		Minnesota T'wolves	1,260	223	47	UD	Jun-95	na	
San Antonio Spurs	1,625	262	63	75	Jun-93	12.8%		Charlotte Hornets	1,250	213	22	275	Mar-10	18.9%	
Portland Trail Blazers	1,600	246	40	70	Jun-88	10.8%		New Orleans Pelicans	1,220	214	29	338	Jun-12	21.8%	
Sacramento Kings	1,575	263	72	534	May-13	21.4%	+78%	Memphis Grizzlies	1,200	213	27	350	Jun-12	20.9%	

\$54.8billion assessed value; >\$8billion of 2018 revenue; \$1.8billion operating income; **9.7%pa IRR from last sale to now**

# MADISON SQUARE GARDEN COMPANY: REVERSE ENGINEER

\$million	
Shares	23.759
Price	\$301.69
Equity Value	\$7,168
Net cash	\$1,190
Working capital	(\$562)
<b>ENTERPRISE VALUE</b>	<b>\$6,540</b>

Knicks	4,000
NY Rangers	1,550
MSG	1,200
TAO Group (63%)	180
Inglewood Forum(CA)	>100
Chicago Theatre	
Rockettes	

## OPTIONALITY

MSG Spheres developments  
(Las Vegas, London)

Esports  
(CounterLogic & Knicks Gaming)

Air rights (effectively with VNO)

Improved Knicks performance

Improving Rangers performance

Spin out H2 2019 to NewCo

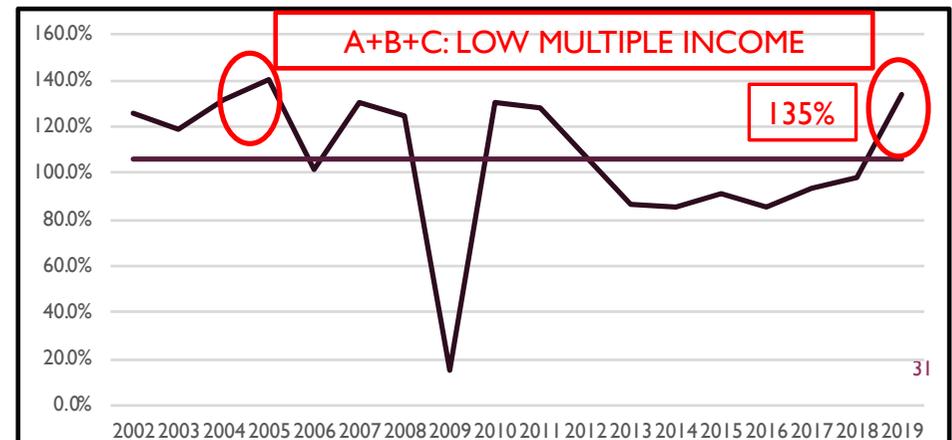
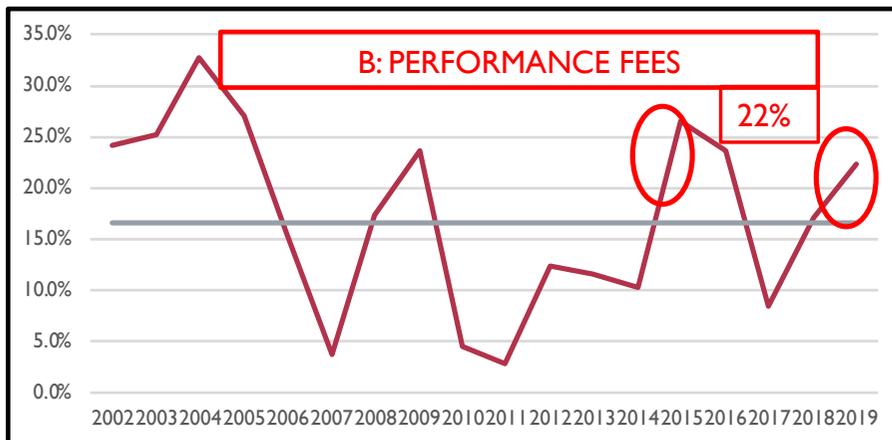
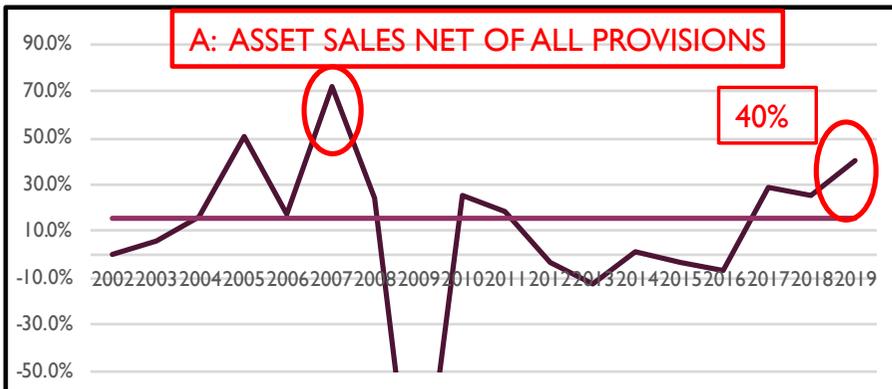
Profitable, cash flow, return of capital

- MSG is 71% voting (21% economic) by Dolan family
- Favoured subject of NY Post due to Knicks
- Good record on spin offs (Sept 2015 spin from MSG Networks)
- Good record of investing in venues

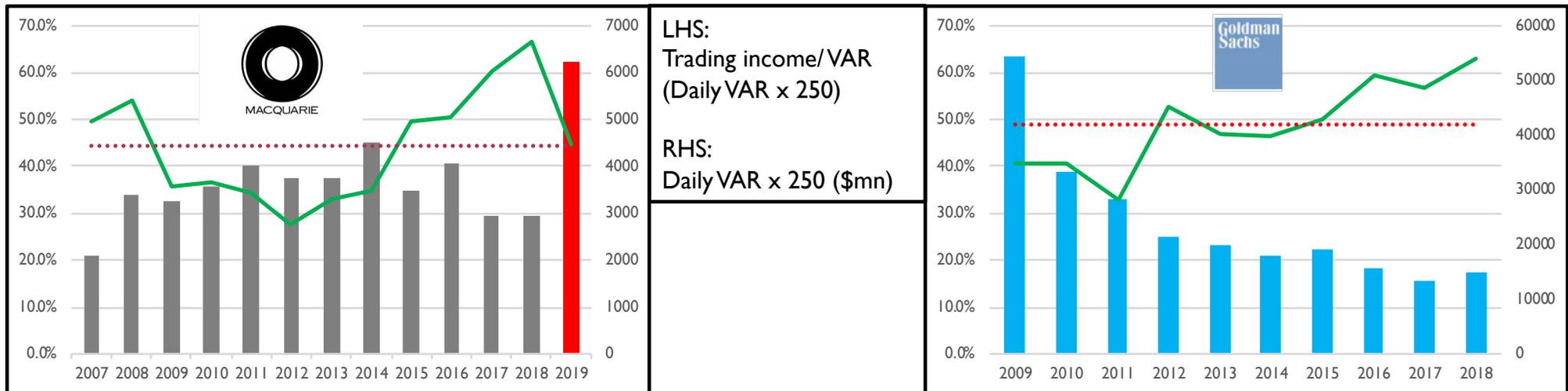
## MACQUARIE GROUP: SMART FOLKS COME (TOO) EXPENSIVE

- ❑ A great Australian success story with heaps of opportunity
- ❑ But the analysis is eulogistic: FY2019 a low quality profit stream....
- ❑ ...which is why may be hard to match in FY2020
- ❑ Markets capitalise asset sale/trading & low P/E profits at 14-15x
- ❑ ...which leaves the shares highly valued versus peers
- ❑ Excellent disclosure of revenue streams – but don't know NET basis as costs – employee and capital - are (rightly) opaque
- ❑ We talk in EQUIVALENT % of pre-tax – not actuals as will be bonus pay aways from performance fees and trading profits (& capital charge)

# MACQUARIE GROUP: EQUIVALENT % OF PRE TAX INCOME



## COMPARATIVE RETURN ON VALUE AT RISK (DAILY X 250)

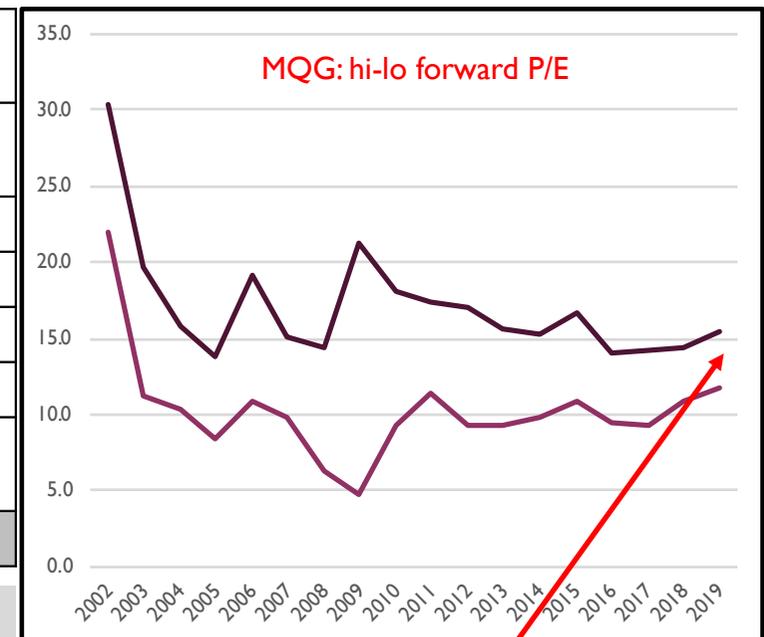


- MQG have significantly lifted daily VAR - especially in commodities (gas)
- MQG % returns are around average for past 12 years – but well down on past four
- GS have significantly reduced VAR (Volker Rule) from pre-2010 but make excellent returns on market making
- GS returns on VAR now 20%pa > MQG but GS shares trade at ~ 8.6x FY19 PER
- Can MQG make better use of risk going forward?

# MACQUARIE GROUP: ANALYSIS BENEFITS FROM OTHER HOLDINGS

US\$m	Market Cap	CY19 PER	CY18 ROE	P/BV	
AerCap	6,980	7.4x	11.7%	0.78x	Largest aircraft lessor, 1400 owned/ordered (MQG 260)
Blackstone	47,025	16.8x	23.7%	4.0x	FPAUM \$512bn
Goldman Sachs	73,526	8.6x	14.1%	0.96x	
KKR	19,782	14.0x	14.3%	1.4x	FPAUM \$148bn
Seaspan	2,130	11.4x	12.5%	0.91x	Largest containership lessor (112)
Virtu Financial	4,638	15.2x	30.8%	13.4x	High technology large US market maker + new exchange option
Macquarie	29,640	14.2x	18.0%	1.7x	FPAUM US\$380bn

- 40% of FY2019 profit explicit asset sale gains (+low 22% tax)
- Trading income from increased risk – not valued elsewhere
- Leasing is a low multiple business
- Reversed engineered price of MAM: >A\$25billion = 22x P/E
- Estimated ~35x excluding performance fees (after 25% pay away)



Consensus EPS estimate FY20: \$8.76  
P/E ratio: 14.2x

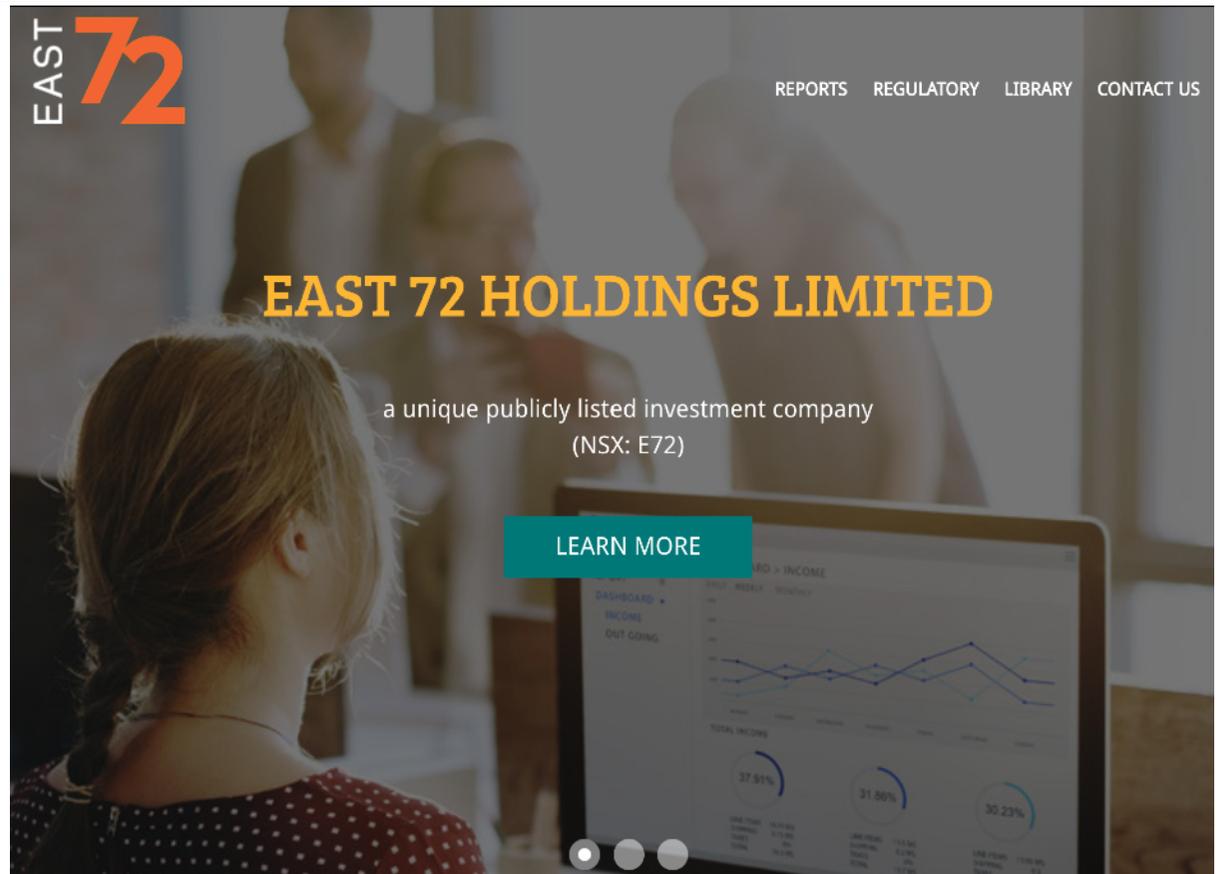
## CLIMBING CRANES: CONCLUSION

- ❑ Low volatility, hope and complacency are causing distortions
- ❑ Quantum of global debt makes life sensitive
- ❑ Stocks are not cheap & have risen against the fundamentals
- ❑ Elements of Growth At Any Price – business model not price
- ❑ Inevitable that volatility will spurt again
- ❑ Net exposures have moved consistently versus S&P 500
- ❑ We are leveraged short GAAP (high beta) long value (low beta)
- ❑ Lowest net exposure since September 2018

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## SOURCE NOTES BY SLIDE NUMBER

- 4: Chicago Board Options Exchange
- 6: Wolf Street; Federal Reserve Board of St Louis
- 7: Federal Reserve Board of St Louis/Federal Reserve Board Financial Stability Report
- 8: Haver, ECB; UBS; Deutsche Bank compilation
- 10: Nordea; Straits Times; US Trade Commission; Shanghai Shipping Exchange
- 12: Russell; S&P compiled by East 72 Holdings
- 13: Factset Inc
- 14: Factset Inc; Birinyi, Bloomberg
- 15: American Association of Individual Investors, Ritter, GMO
- 16: Refinitiv
- 17: MSCI, Refinitiv, Reserve Bank of Australia; UBS
- 18: Goldman Sachs, Bloomberg, Refinitiv, East 72 Holdings
- 19: Saxo Bank, Bloomberg
- 23: Bollere
- 28: Forbes, SBNation compiled by East 72 Holdings
- 31: Macquarie Group compiled by East 72 Holdings
- 32: Macquarie Group, Goldman Sachs Inc compiled by East 72 Holdings
- 33: Refinitiv

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At the date of the Presentation, of specific individual securities mentioned Andrew Brown and/or E72 hold **long** positions positions via underlying equities or derivatives in via underlying equities or derivatives in Aercap Holdings, Alphabet Inc, Alleghany Corporation, AMP Limited, Berkshire Hathaway, Blackstone, Bollore (and its related company Cie Financiere de L'Odet), (Walt) Disney Company EXOR SpA, Goldman Sachs Inc, Gowing Brothers Limited, KKR & Co, Madison Square Garden Companies, Monash Absolute, MPC Containerships, Namoi Cotton Limited, News Corporation, NZME Limited, PICO Holdings, PM Capital Global Opportunities Fund, Prime Media Limited, Sberbank, Seaspan, Seven West Media Limited, Virtu Financial and Vornado Realty Trust.

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