QUARTERLY REPORT #24: PERIOD TO 30 JUNE 2022[1]

Performance and net asset value[2]

Quarterly gross portfolio return: -27.2%†; rolling twelve month gross return -27.1%†
(† includes 10.4% (quarter) and 9.6% (annual) impact of June 2022 expanded bid-offer spreads and low volume/value (<$2,500) spread crossing sales in Australian listed microcaps; all prices used are bid prices)

E72's top twenty long positions in alphabetical order as at 30 June 2022 are:

Alphabet (A and C class)	HAL Trust
Agency Group	Liberty Broadband (tracker stock)
Amerco	Namoi Cotton Limited
Ansell	Porsche SE
Citigroup	Regeneron
CK Hutchison	Tassal
E-L Financial Corp	VanEck Gold Miners ETF
Exor NV	Virtu Financial
Financiere de L'Odet	Volkswagen Group AG
Goldman Sachs	Yellow Brick Road Limited

Of these holdings, Citigroup and Goldman Sachs were added in the quarter, whilst we purchased additional securities in Amerco (featured below) and Tassal to elevate them to the Top 20.

During the quarter, the S&P500 fell 16.4%, NASDAQ100 declined 22.5% and ASX200 by 12.4%. We obviously had a range of individual security outcomes in the portfolio, with a number of stocks falling by just over 20% - including virtually all of our micro-cap exposures on thin volumes and with very wide bid-offer spreads. In our view, this artificially accentuates the mark to market declines. We have been in touch with management of all of our smaller companies and are satisfied with progress along the lines of our investment theses. We have had no "disasters" in the quarter where we believe there to be a warranted change to the investment thesis, or permanent diminution in value.

We did have some benefit from a non-binding indicative (takeover) offer for Tassal, the Tasmanian salmon producer; this may or may not progress – if so, it won't at the current price – but a much higher price will rely on the company (or its advisors), effectively being willing to sell the business. They have not reached this landmark at time of writing.

In this report, we discuss the market environment and inflation/growth inflections, together with profiling two US companies – which are both family controlled, a facet we like in this environment. We believe both have some degree of resistance to an inflationary environment, being exposed to significant "sunk cost" assets – cable broadband and a monopolistic moving business, with strong asset backing.

There is a catch, however, which explains why they are both, in our opinion, underpriced.

[1] Readers are referred to footnotes 2 and 21 - 26 explaining the derivation of the numbers. All returns are pre-tax unless stated otherwise. At the current level of net assets, cost imposition is estimated at 0.9% per month over the course of a full year (excluding capital raising related expenses) and is fully accrued monthly according to the best estimates of management. Readers are explicitly referred to the disclaimer on page 14.
[2] Month by month tabulation of investment return and exposures is given on page 17, along with exposure metrics.

Our exposure to the cable business (Charter Communications) is via its largest shareholder, **Liberty Broadband** (LBRDK) which is geared, but like Charter has a voracious appetite for buying back its own shares.

Amerco (UHAL) which owns two insurers, also owns and manages 73million ft^2 of self-storage units, but most meaningfully owns the largest, dominating self-moving business in America: U-Haul. UHAL is so dominant in trucks/trailers attached to these storage depots as be almost monopolistic with one of the strongest "moats" we have observed. In which it continues to invest to take the walls around the moat to even higher levels. We have to simplify the analysis, since we could write a tome on the company, whose shares we believe are very underpriced. This is a US$9billion business with virtually no sell-side coverage!!

Bear market arrives

The June quarter decline in US share prices brought about the thirteenth bear market – defined as a 20% decline from the prior peak – since World War II. All bear markets are different but share some common traits:

	Decline: peak to trough	Trading days†	Reasoning
1946-47	-27.1%	273	Margin tightening but profits rose significantly
1948-49	-20.6%	238	Margin tightening but profits rose significantly
1956-57	-21.5%	302	Rising bond yields
1961-62	-27.5%	133	†† recession but excessive share prices
1966	-22.2%	165	†† rises in interest rates
1968-70	-36.1%	366	†† social change, end to excessive speculation and conglomerate phase
1973-74	-48.2%	434	OPEC oil shock
1980-82	-27.1%	429	Massive rise in interest rates (Volker) to quell inflation
1987	-33.5%	71	Black Monday/US dollar fear/portfolio insurance
2000-02	-49.1%	637	NASDAQ tech bust
2007 – 09	-56.8%	354	Subprime mortgage & credit/liquidity crisis
2020	-33.9%	23	COVID
AVERAGE	-33.6%	285	
2022 to 30 June	-21.4%	123	Rate rises AND growth fears as liquidity drained

Sources: Wall St Journal; East 72

† there are roughly 250 trading days each year

†† these periods are all covered in the superb book by John Brooks " The Go-Go Years: The Drama and Finale of Wall Street's Bullish 1960's" (John Brooks Paperbacks, 1973)

The thirteen periods share two of three common traits:

- Exogenous shock (oil, COVID);
- Rising interest rates; and/or
- Conclusion of period of excessive speculation and unwind of leverage.

Excessive speculation comes about as investors believe there is some type of "new paradigm" which will elevate certain types of company and change the business world. This can be as simple as financial engineering; for example, the leveraged buyout/junk bond boom of the 1980's.

Virtually every new paradigm emerges during a period of very easy money – and dies when that supply dries up, especially when the "new, new thing" has failed to generate sufficient free cash flow to survive. The current cycle may have been crazier in places, but in essence, is no different.

This time around, we have had three main sets of businesses:

- Fintech – usually a new payments method (eg BNPL), payments transfer or crypto-currencies themselves and their derivative businesses (exchanges) ;
- Cloud based subscription "organisational" businesses offering assorted ways to reorganize your work/daily life ranging from software to stationary bikes with software; and
- On-line retail and retail systems, offering the general populace the opportunity for innumerable side hustles at vast margin to the platform.

The worst of these businesses had started to see their share prices in decline (terminal for some) in early 2021, but remaining at multiples of prior levels as late as November 2021 before commencing a slide to levels some 75% below the peak. As we noted in QR#22 and QR#23, for a bear market to occur would require a derating of the major cash flow producing technology companies. That has duly happened:

Price Δ	Dec qtr	Mar qtr	June qtr
AAPL	25.5%	-1.7%	-21.7%
AMZN	1.5%	-2.2%	-34.8%
GOOG	8.6%	-3.5%	-21.7%
META	-0.9%	-33.9%	-27.5%
MSFT	19.3%	-8.3%	-16.7%
NFLX	-1.3%	-37.8%	-53.3%
NVDA	42.0%	-7.2%	-44.4%
TSLA	36.3%	2.0%	-37.5%
Average	**16.4%**	**-11.6%**	**-32.2%**

The table at left shows the "waves" of price declines which have beset the large eight technology stocks since end 2021 – which largely coincides with the peak in S&P500 on 4 January 2022 at 4818. It also shows the disjointed manner in which they reached that peak with steep rises in Q4 2021. The March quarter was more stock specific based on results and guidance whilst the June quarter was clearly "all embracing"

These declines have seen the NASDAQ fall 31% from the November 2021 peak, but with NFLX down 75% from its peak and META 58%.

Inflation: why it's a worry……

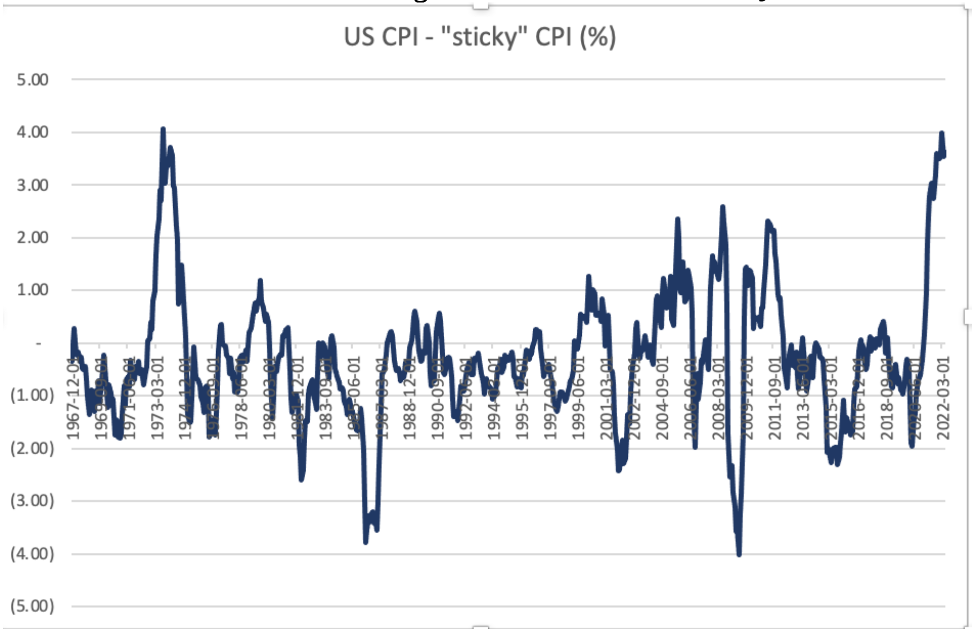
"The arithmetic makes it plain that inflation is a far more devastating tax than anything that has been enacted by our legislatures. The inflation tax has a fantastic ability to consume capital".
Warren Buffett: How Inflation Swindles the Equity Investor[3]

If the erosion of a new paradigm is the "art", then the "science" is the valuation mathematics of stock prices. Inflation plays havoc with the science in many different ways.

[3] "Fortune" Volume XCV, No5, May 1977 (Time Inc.) – available on line

Inflation by its nature demands higher interest rates to compensate for the loss of purchasing power from holding a nominal amount of cash. Hence, the interest rate at which future cash flows of an enterprise are discounted back to present day values increases, and thereby reduces the present value of the company. Where the company is currently unprofitable but is expected to create cash flow/profit some years into the future, the impact of this arithmetic is far more devastating than to an currently profitable enterprise; simplistically, this is why stocks with imputed high growth rates suffer correspondingly more in rising rate environments than the "value" (currently earning) counterparts. There are innumerable subtleties – so called "value" stocks are often pro-cyclical (eg. commodity producers, airlines etc) - and so are doing well as a core business in any case.

To understand why investors might be petrified at recent events, the long term monthly inflation rate of "sticky" goods in the US clearly shows why. Using this data from the Federal Reserve Board of Atlanta shows the prevailing inflation rate on "sticky" goods is around 5%pa ("core" inflation in the BLS stats is around 5.6%, against an annual CPIΔ as of June 2022 of 9.1%pa):



The Sticky Price Consumer Price Index (CPI) is calculated from a subset of goods and services included in the CPI that change price relatively infrequently. Because these goods and services change price relatively infrequently, they are thought to incorporate expectations about future inflation to a greater degree than prices that change on a more frequent basis. One possible explanation for sticky prices could be the costs firms incur when changing price.

Since the US emerged from recession in early 1983, the average month year over year "sticky" CPI change (472 observations) has been 3.05%; however, in the period between September 2008 and November 2021 (159months) there were NO sticky CPI numbers with a "three handle" (3%). But whilst this "sticky" number is up around 5% currently, the overall cpi number, incorporating food and energy is up over 8%. Hence, the gap between "core" style inflation – followed assiduously by central banks – and the real world incorporating food and other volatile items, is at the highest level since 1973. Little wonder some central banks are having problems assessing the fact the consumer will start to struggle.

EAST 72

The problem for investors[4] is not just a higher discount rate– but the impact of changing expectations. If we are fairly certain about expected inflation, we can build it into a valuation model. The problem is, once we move off the type of low base we have had for so long, both the overall economy and investors start to encounter **unexpected** inflation – changes they simply don't expect and so haven't been able to factor into modelling. Of course, in doing so, this creates volatility as valuations ratchet down. In essence, this is the type of behaviour we saw in the third week of June (13th-17th) when investors faced with another USCPI above expectations aggressively marked down the S&P500 by 5.8% in a week.

Moreover, as inflation reaches higher levels, <u>in itself</u>, it becomes far more volatile, suggesting investors have to build in an further level of risk premium in valuing assets. So, we have gone from:

Low expected inflation (2%) + no unexpected inflation + no inflation volatility
to
Higher expected inflation (~5%) + unexpected inflation (say 3%) +inflation volatility

The impact – <u>if sustained</u> – of this change is nasty indeed.

....but why we might be worrying <u>too</u> much

In QR#20 (June 2021) – full a year ago, which shows how wrong central banks have been - we broke down the influences on inflation to:

- Demand pull – strong consumer demand on the emergence from pandemic impacting on restricted supply;
- Cost plus – where exogenous factors impact on individual components of a supply chain increasing its price or availability; and
- Expectations – where consumers start to build in higher levels of inflation to their purchasing decisions by accepting higher prices or modifying behaviour (and producers feel able to enact indiscriminate price rises

It should be clear from the preceding section that the LATTER is the most dangerous – once, the "vox-populii" get onto the inflation bandwagon, it becomes ingrained; getting it out of the psyche of the population is not easy. For example, Australia spent years with Hawke and Keating's union agreements ("Accord") trying to do so in the early-mid 80's . We know the RBA is petrified about expectations; the latest RBA Minutes[5] in the fourth paragraph containing the meaningful phrase: *"Medium-term inflation expectations remain well anchored and it is important that this remains the case".* Indeed it is.

Our comments in March 2021 and June 2021 cautioned about how far behind the curve central bankers in USA and Australia really were – that they were happy to ignore emergent signs of inflation, fearful that full recovery from the economic impact of COVID had not been achieved. It was clear to us that both Federal Reserve and RBA should have been "tapping on the brakes";

[4] A wonderful exposition of these arguments can be found on the podcast "Ashwath Damodaran – Making Sense of the Market" in the "Invest like the Best" series Ep 279 with Patrick O'Shaughnessy. Prof Damodaran is Professor of Finance at NYU's Stern School of Business and is well known for his transparent valuation blogs.

[5] Statement by Phillip Lowe, Governor: Monetary Policy Decision (RBA 2022-20) 5 July 2022

instead they both fitted a new Ferrari V8 turbo and floored the accelerator with continued buying of bonds to keep market interest rates low, and fueling a real asset boom in residential property. Our fears were that inflation would move up sharply (it has) but also that markets would eventually see through this and move interest rates dramatically higher. Additionally – as is always the case in the valuation of financial assets there's a third component to the pricing equation – a "risk" premium.

The risk here: central bank credibility has been badly damaged and so investors demand a higher return to be exposed to their behaviour.

As much as anything, the sharp downturns in equities and upturns in central bank interest rates in June 2022 (+75bps for FRB; +50bp for RBA) seem to have been about re-establishing central bank credibility as inflation fighters and trying to get ahead of the curve, from a position some way back. This, of course, introduces far more volatility into interest rate settings, because of its unexpected nature. If you believe this opinion to be fanciful, contemplate why the Governor of the Reserve Bank of Australia did a TV interview[6] for the first time in TWELVE YEARS[7]!!

It's worth noting that the impact of higher mortgage rates in Australia is operating on an economy where mortgage credit is around 94% of GDP; that's twenty percentage points higher than the US equivalent[8]

<u>There are clear signs that the demand pull and cost push aspects appear to be moderating</u>. This is partly because of the highly leveraged nature of the economy (especially Australia) where the increased cost of mortgages is combining with the pre-existing cost push aspects to rip money from consumers wallets. When looking at "base effects" – remember inflation is measured as year over year change in CPI (or equivalent) – if there are no further influences (eg. oil price does not rise further, commodity prices fall) then annual changes in the level of CPI (or the inputs to it) will start to abate.

If demand pull inflation starts to subside, there will be a negative influence on equity prices as profit revisions will be negative, from a revenue growth perspective. They are already under pressure from a cost perspective, with material and service inputs (eg freight) having already increased in price, now being followed by labour cost inflation.

The "global" index formulated by Freightos (below), which is an amalgam of widely differing route pricing – the current $6,500 index price incorporates over $12,400 a container from East Asia to Mediterranean down to $687 from US East Coast to Europe). "Average" global freight rates per container, which increased from ~US$1,700 in July 2020, to a peak around $11,000 in October last year, <u>are now down below the levels of a year ago (~$6,500 against ~$7,600).</u>

Assorted commodities – notably copper, cotton, wheat and lumber – are down <u>sharply</u> from late 2021 and early February – May 2022 peaks; with the Brent oil price abating from the financial market driven highs of US$125/barrel a few weeks ago, the food/energy additions to "sticky" CPI may well be abating as well.

---

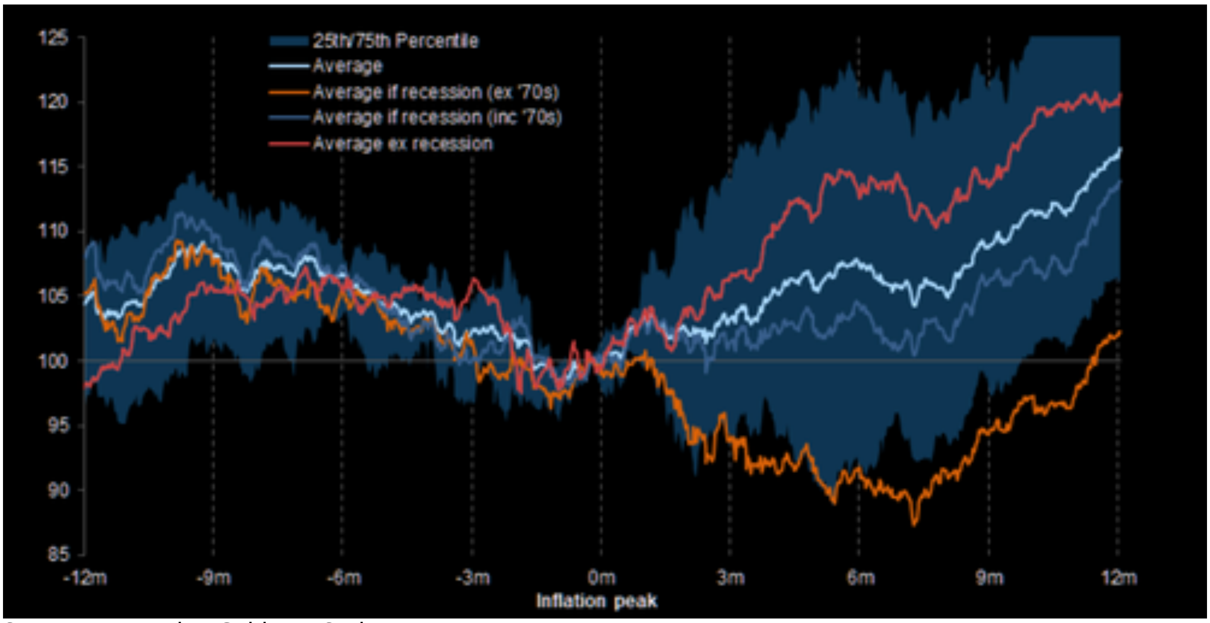
[6] The previous Governor, Glenn Stevens did a TV interview on Channel 7's "Sunrise breakfast program in late March 2010 to flag a likely continuance of interest rate rises.
[7] Interview on ABC's "7.30 Report" 15 June 2022
[8] US has US$18.35trillion of mortgages against US$24.38trillion of nominal GDP

However, in particular, the bond market is telling you something. 10 year Treasury yields in the US are down from a recent peak (mid June) of 3.5% to just above 3% (and recent low of 2.8%). Moreover, the "breakeven" inflation rate over 5 years and 10 years – deduced from deducting the yield on a Treasury indexed bond from that of a nominal Treasury bond of the same duration – has fallen sharply: a recent peak of 3.6%pa to 2.6% on the 5's (pictured below) and 3%pa to 2.3%pa on the 10's:

Source: Federal Reserve Board of St. Louis

What if it turns out that we are close to the inflation peak, even if there is a technical recession in the US (two quarters of negative GDP growth)? Well, by and large that's actually GOOD for equities.

The chart below shows that from the PEAK in inflation – even if there is a recession – equities (measured by S&P500) are typically higher twelve months out; if there is no recession, typically substantially so - ~20% or more.



Source: ZeroHedge/Goldman Sachs

My suspicion is that the orange line, showing ~10-15% additional downside might turn out to be more applicable. S&P500 earnings for CY2023 are currently forecast[9] at 250; with S&P500 at around 3785 at end June 2022, this suggests a reasonable multiple of 15.1x P/E for next year. With 10 year Treasuries at just above 3% yields, that's not especially unreasonable. However, the 250 "EPS" estimate seems too high in light of the weakening US (and global) economy and cost pressures. Hence, in our eyes, it suggests were EPS estimates go will dictate where the market goes. 10-15% reductions in CY2023 earnings forecasts don't seem especially outlandish.

Of course, a further 10-15% downside in S&P500 would bring that index back to the 3200 – 3300 range, marking around a 32-33% correction from the peak. Very much in line with the average. This is not an attempt to "call the bottom" in the next quarter, but to suggest that there are many interesting opportunities around in the midst of exceptionally gloomy sentiment.

Our strategy

We are geared with $2.26 of NET positive exposure (after hedges) for every $1 of equity. 6 of our top 20 investments are holding companies (E-L, Exor, Amerco, VW, Porsche, Odet) trading at a 40% or more discount to assessed NAV (HAL is slightly less), two financials (Citi and Virtu) trading at mid-single digit P/E's (Goldman is not but we bought at below tangible book value) and two specialist micro-caps (Agency, YBR) where we can see >100%+ upside once certain capital management measures are enacted, despite some industry headwinds.

Our two agri/aqua exposures both have corporate appeal. Hence, we have series of exposures trading at large scale discounts to assessed value at prevailing prices. As stock prices recover, the value of their assets should improve, together with a closure of the discount.

[9] "Factset Earnings Insight", 8 July 2022

Lining up with the Cable Cowboy: Liberty Broadband (LBRD)[10]

81 year old John Malone is a storied American operator and investor in the broad media and telecommunications arena. Malone is, of course, the player who frightened the bejesus out of Rupert Murdoch by acquiring 19% of News Corp voting stock in 2004-2006, before agreeing an asset swap in December 2006 to allow Rupert to sleep at night.

The early part of Malone's career is laid out in the 2002 book "Cable Cowboy"[11] which documents the growth of TCI (Telecommunications Inc) from its origination in 1958 controlled by its original founder, Bob Magness. Malone joined up as 32 year old CEO in late 1972 in a period where most of the nascent cable businesses had saddled themselves with outlandish amounts of debt; TCI's debt at the time was equivalent to 17x revenues.

The story of the growth of TCI, where the stock multiplied over 900 fold between 1972 and 1998 prior to its sale to AT&T in 1999, is documented in William Thorndike's "The Outsiders" (Chapter 4)[12] together with a focus on three of Malone's "recipes" to accelerate shareholder returns, usually to his own (as well as shareholder) benefit, namely:

- Liberal use of debt in an appropriate manner against long term cash flows, at low interest rates and with lengthy maturity;
- Use of tri-partite capital structures with A, B and C class shares having respectively 1, 10 and nil votes per share – Malone invariably retains control through ownership of the B shares, as is the case with LBRD;
- Use of spin-outs and "tracker stocks"[13] to make transparent the valuation of individual components of the company. This is best seen in "Liberty Media" where <u>the entirety of the company's assets</u> are attributed to three tracker stocks: Formula 1 (FWON), Atlanta Braves (BATR) and Liberty Sirius XM (LSXM). You can't buy stock in "Liberty Media".

Malone has historically been a marvellous seller of assets to – and buyer of them at distressed prices from – large media/telco conglomerates. This reached an early culmination with the sale of TCI to AT&T in June 1998 for $55billion, settled in March 1999.

Malone had established Liberty[14] in 1991 as a means of separating the more speculative assets (cable programming regional sports) plus a small amount of TCI subscribers from TCI through a complex exchange offer where shareholders in TCI were able to exchange shares in that company in exchange for rights to subscribe to Liberty. Less than one third of the shares were taken up, which gave Malone – on borrowed money – 20% of the "B" class Liberty supervoting stock (of which more below), and 40% voting control. Once the AT&T transaction had settled, Liberty gained additional cash, but left Malone free to explore options in the telco/cable/TV markets.

---

[10] All values in US$
[11] "Cable Cowboy" Mark Robichaux (John Wiley & Sons) 2002
[12] "The Outsiders" William Thorndyke Jr. (Harvard Business School Publishing) 2012
[13] Tracker stocks are specialty equity securities designed to "track" the performance of an individual business within a larger company and have similar reporting characteristics to any listed corporation. However, the parent company legally retains ownership of the underlying assets/business constituting the tracker stock. Tracker stocks eliminate the need for a total spin-off of the business, but tracker securities can be spun off from the parent entity as has been the case with many components of the "Liberty" group
[14] http://csinvesting.org/wp-content/uploads/2012/09/rights-offering-and-over-subscriptions_final.pdf

Liberty Broadband is one of seven structures, encompassing nine securities including tracker stocks within the "Liberty" empire:

- Liberty Media, noted above which consists of the three tracker stocks FWON, BATR and LSXM;
- Liberty Global plc (LBTY), providing broadband and mobile in Europe;
- Liberty Latin America (LILA), a replica of LBTY across selected countries in South and Central America;
- Qurate Retail (QRTE) a home-shopping entity encompassing HSN and QVC amongst other assets;
- Liberty Trip Advisor (LTRP) which holds a 21% economic stake, but 57% voting position in TripAdvisor (TRIP);
- LMF Acquisition Opportunities (LMAC), a special purpose acquisition corporation (SPAC); and
- Liberty Broadband.

At 31 March 2022, LBRD equity is comprised of the three classes noted above; 22.56m single vote "A" class, 2.54m 10-vote "B" class and 139.9m non-voting "C"; John Malone controls LBRD via his ownership of 92% (2.148m) super voting "B" shares, despite holding only a 2.1% economic interest.

LBRD has two assets:

- GCI Holdings – a specialist communication and entertainment provider to Alaska, acquired in December 2020 for an effective equity value (via stock swap and cancellation of LBRD shares owned by GCI) of $3.06billion; attaching debt of $2.2billion and other liabilities were offset by an investment in Charter (below); and

- 26% interest in Charter Communications (CHTR, Charter) an $81billion equity capitalised (enterprise value ~$174billion) cable network with over 30million residential customers and 2.16million small and medium business relationships[15]; at the share price on 30 June 2022, the CHTR stake is priced at $24.15billion.

Hence, it is clear that the value within LBRD is virtually exclusively driven by Charter, its share price and an intriguing buy-back mechanism (below) which even more inexorably links the two companies.

Charter, which operates as "Spectrum" in 41 US states dates back to 1980, but the formative transactions took place from 1998 onwards, with Paul Allen, the co-founder of Microsoft, as Chair. The company expanded rapidly by debt funded acquisition and concluded 2008 with $21.8billion of debt, against just over $6.5billion in revenues! CHTR filed for Chapter 11 bankruptcy protection in February 2009 but re-emerged with $8billion less debt in November the same year.

[15] As at 31 March 2022

The seminal transactions for the company occurred in March and May 2015 when the company announced the acquisition of Brighthouse Networks and Time Warner Cable respectively, aided by a $5billion equity injection from Liberty Broadband.

The cable business is ostensibly about preventing "churn" – customers coming but staying for short periods of time, thereby rendering their lifetime value to the company lower than the cost of attracting them. The TV side of the business is not especially profitable; neither yet is the wireless business. However, the core cable business, supplying broadband continues to grow – in line with consumption of streaming services – and is a high margin (sunk cost) business. The threat to broadband comes from new technologies such as 5G wireless and fibre to the home which provides potential for "overbuild" of existing cable networks.

Charter has a significant cost competitive advantage which it is able to utilise to price its services under the mainstream competition and provides significant protection. This, together with the sunk capital cost aspect, provides credence to CHTR as an inflation hedge.

CHTR has an equity market value of $81.2billion (173.6million shares at $468); the shares have fallen from highs of $825 in September 2021. CHTR spend round $7 to $7.5billion on capex per annum, against an operating cash flow (post tax and interest) in 2021 of $16.2billion. This provides the shares with a free cash flow yield on equity of 10.6% if maintained; pre-tax and interest, the equivalent FCF yield on enterprise value ($174bn) is around 7%.

Given the likelihood that long bond rates in USA may even have peaked in the short term at 3.5%, these yields, even for a slow growing cable company are very attractive. However, looking out 2-3 years they are accentuated by strong equity buy-back program, which has averaged over $3.5billion a quarter in the past two years which at prevailing prices would theoretically retire close to 30million shares per annum (17% of issued capital).

One aspect that prevents such an aggressive share repurchase, but accentuates our view of holding LBRD as a play on CHTR is the unique arrangement between the two companies. As part of LBRD and Charter's shareholder agreement, LBRD cannot hold greater than a 26% interest in Charter and so sells CHTR shares to Charter as part of that company's buyback program. This is done on a monthly basis, based on CHTR's buybacks in the prior month. In turn, this enables LBRD to repurchase its own shares (if appropriate) from the cash proceeds of the CHTR sales. So LBRD effectively represents a slightly geared (and discounted) entry to CHTR's autosarcophagy whilst also engaging in the same self-cannibalistic practice.

LBRD gains significant cash flow to retire its own shares by the forced resale of CHTR securities to maintain the shareholding at 26% in light of CHTR's aggressive buybacks; in essence two connected spinning cogs.

LBRD has retired a stunning 16.3% (31.6million) of its own "A" and "C" class shares in the fifteen months since end calendar 2020, at an average price of $162/share against the prevailing level at end June 2022 of $115.64. This suggests future buybacks will be as aggressive as responsibly possible.

From an asset value standpoint, we estimate LBRD at $115.64 to trade at an 18% discount to the value of its two assets, after the recent US$170m sale of the Skyhooks business, as follows:

	US$million	
51.554m CHTR shares @$468	24,155	
GCI Holdings (assessed value)	2,400	(cost $3billion so 20% discount)
Est. net debt inc preference equity	(3,228)	
EQUITY VALUE	23,296	164.9m total "A, "B" & "C" class
NAV/share	$141	(18% discount at $115.64)

Amerco: Opacity creates significant opportunity[16]

Amerco (UHAL) is the fourth largest self-storage unit owner in the US, with ownership of just over 50million square feet (4.65million m^2) of these properties, along with management of a further 23million square feet. That's a pretty robust starting asset, but when you combine it with a fleet of 186,000 trucks, 128,000 trailers and 46,000 towing devices under the "U Haul" banner, you have an astonishing integrated, moated moving and storage business across the USA.

U-Haul has a storied history[17] having been established as a "one-way" rental company in 1945, and now having 23,000 locations across North America – 2,100 company owned and 21,100 independent franchise dealers. The company has a near monopoly in DIY inter-city moves having 10times the number of locations as its nearest competitor Penske. Whilst Penske employ a fleet 52% the size of U-Haul, a likely significant (yet undisclosed) portion of the Penske fleet is made of commercial rental vehicles (refrigerated units, semi-trailers etc). Next largest is Budget (Avis) who have a truck rental fleet a little under 6% of that of U-Haul.

Amerco is controlled by the Shoen family – Chairman Joe and family control 42.7% of the small float of only 19.6million shares; at $478 a share, the equity pricing of the company is just under $9.4billion. With an adjusted $3.4billion in net debt, enterprise value is a very low $12.7billion.

We can compare UHAL's in-situ storage portfolio, which it has grown from around 15million ft^2 in nine years with five publicly listed large-scale peer REIT's. We acknowledge this is a theoretical exercise in splitting the "real assets" (storage) from "the business" (trucks) since the Shoen's are highly unlikely to ever securitise the properties because of the massive competitive advantage brought about by the combination. But it's an exercise worth doing to get to the bottom of the magnitude of undervaluation UHAL stock.

By comparison with UHAL, REIT's have an obvious tax advantage, but also benefit in investors' eyes from transparency – if we ignore the fact that some have equity in highly geared unconsolidated JV's or have management income streams, or significant minority ownerships in sub-trusts. These minority interests are especially difficult to cater for. We have made an attempt to deal with these inconveniences for the peers but must concede that our maths has more than the usual caveats.

[16] All figures in US$million
[17] The "storied" includes bankruptcy protection and sons forcing out their father from the board of Directors!

As a guide, the "average" facility in America has around 72,000 – 77,000 ft^2 of available space at ~110ft^2 per unit renting out at ~$18.75 per ft^{2}pa. Valuations vary widely for obvious reasons. The table below shows the four largest public storage REITs by area, the smallest of which is a smaller size than Amerco, are valued by the equity market at an equivalent EV/ft^2 of $273, which would value UHAL's owned portfolio at $13.6billion, against a current **company** EV of $12.7billion. The comparison becomes even more ludicrous when including managed properties.

Even the second-lowest[18] rated of the five REIT peers (LSI: $153.64 psf) suggests the owned Amerco portfolio to be worth $7.7billion on a standalone basis, leaving $4.9billion of attributable value for the UHAL and insurance businesses.

Millions/$mn	**Cube Smart**	**Extra Space**	**Life Storage**	**National Storage**	**Public Storage**	**Aggregate**
Ticker	**CUBE**	**EXR**	**LSI**	**NSA**	**PSA**	
Issued shares	224.4	134.3	84.3	91.5	175.2	
Price (30 Jun 22)	$42.72	$170.12	$111.66	$50.07	$312.67	
Equity Capn.	9,586	22,839	9,414	4,577	54,770	101,186
Net debt/prefs	3,348	5,198	3,092	3,193	11,791	26,622
Assessed other assets	(117)	(500)†	(215)	(184)	(2,569)††	(3,585)
Enterprise value	12,817	27,537	12,291	7,586	63,992	124,223
Owned ft^2 (million)	43.6	76	80	56	199	455
EV/ft^2	**$293.97**	**$360.55**	**$153.64**	**$136.19**	**$321.56**	**$273**
Managed ft^2 (million)	6.5	88				95
Owned & managed ft^2	50.1	164	80	56	199	550
Adj. EV O&M	12,817	28,037				124,723
Adj EV/O&M ft^2	$255.82	$170.00				**$227**

† management company valuation
†† includes publicly listed stocks PBS and SHUR.BR

Amerco owns two insurance businesses – a property casualty insurer (Repwest) which mainly does claims management for the U-Haul portfolio of vehicles and a life company, Oxford and its various subsidiaries. Both businesses are profitable and have combined equity bases of $736million – not inconsequential. Over the past two years, the two companies combined have recorded average per annum pre-tax profits of $62million.

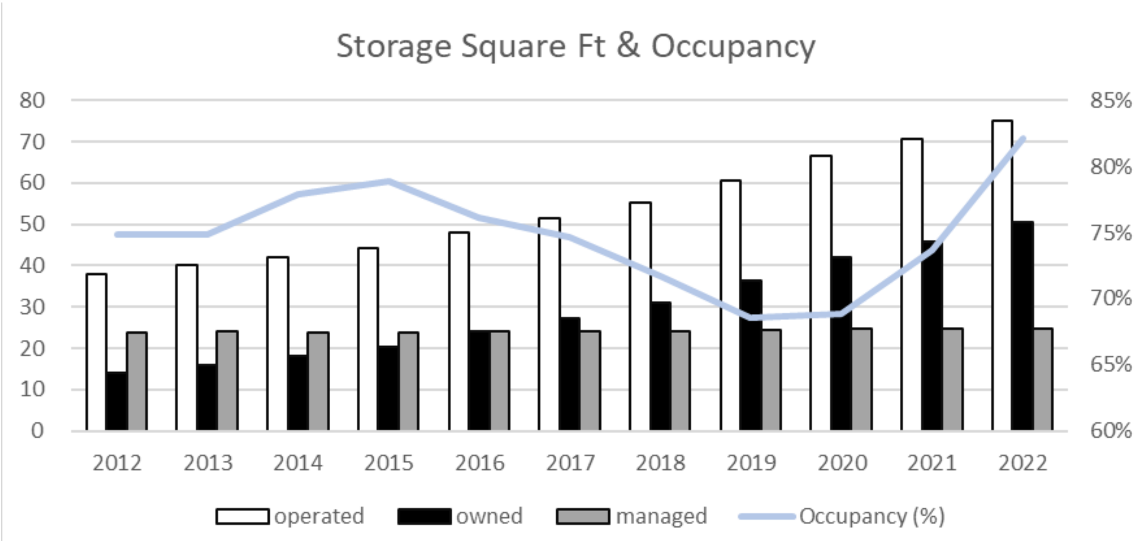
Based on Deloitte analysis[19], the typical global life company has transacted in a willing buyer-seller deal at 1.15x BV in the past year; the equivalent in the P/C business has been a slightly higher 1.2x. As a consequence, this suggests the Amerco businesses might be worth a combined $860million, equivalent to 13.9x average pre-tax earnings in 2021 and 2022.

The key piece of opacity within Amerco which mitigates against transparent analysis is the binding together in the segmental accounts of "moving and storage"; in other words the self - storage rental returns – which we are valuing above on an asset basis - are not broken out from the truck and trailer rentals.

[18] NSA (the lowest) have various "affiliates", significant minority interests and external management of their properties making equivalences difficult to compute.
[19] Deloitte 2021 Insurance M&A outlook (Deloitte)

Hence, the analysis which follows is our own work and not cross-checked with the company to establish what we believe the pure vehicle, trailer rental and parts sales might be valued at by the equity market. With that warning, the good news is that there is respectable consistency across the five large listed REIT peers in respect of costs and revenues per square foot. The good news is that Amerco does disclose REVENUES from self-storage - which have compounded at just under 17% per annum over the past nine years, as the portfolio has continued to grow and occupancy has improved.

As an estimate, based on the cost structure of the peers, but where we expect Amerco to operate at a more parsimonious level; we believe operating cost of about $5 psf pa to be a reasonable and possibly conservative estimate.



Self storage revenues only ($million)

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
153	182	211	248	287	324	367	419	477	617

On that basis, across the owned portfolio, this would imply operating profit of ~$380million in the year to 31 March 2022 from self-storage ownership on revenues of $617million. Hence, our portfolio estimate valuation of $7.7billion represents an earnings yield of ~4.95%, on an asset which management in its latest earnings call notes is “continuing to fill at historically high rates”. It explains why Amerco is not retiring equity despite the apparent discount to value (below). They see further opportunities in the ownership component of the business given demographic change in the US, and shortage of available sites – for others – as well as zoning difficulties in urban environments.

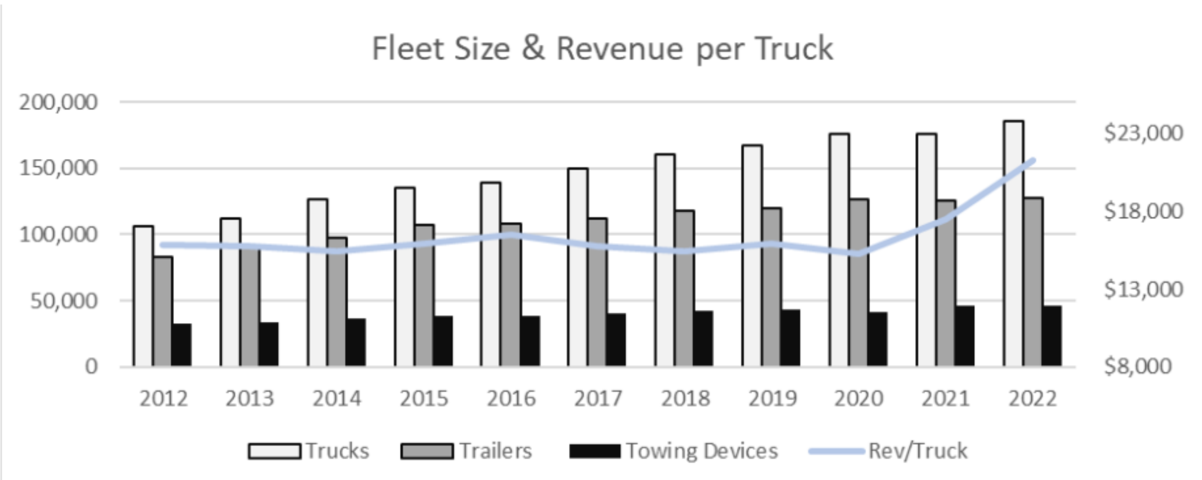
With the self-storage “property” revenues backed out of the segmentals for “moving and storage”, we can hazard an estimate of the profitability of “moving”, encompassing vehicle and trailer rentals.

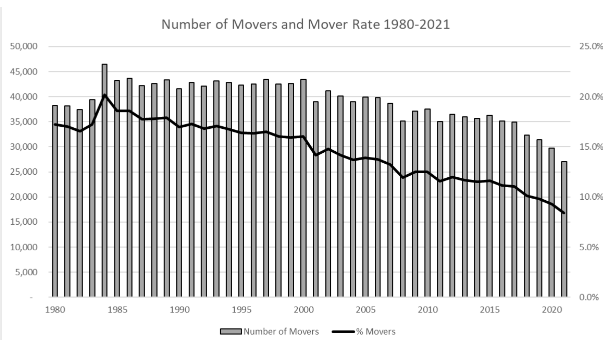
Based on the UHAL segmental profit analysis[20] (reproduced below), this would suggest the remaining "moving and storage" operations to have burgeoned in the past two years with an operating profit of $1.68billion EBITDA in 2022, up from an estimated $1.25billion in 2021 – excluding profits on vehicle sales. Why so strong?

	Year Ended March 31, 2022	2021
	(In thousands)	
Moving and storage		
Revenues	$ 5,398,267	$ 4,231,674
Earnings from operations before equity in earnings of subsidiaries	1,577,226	906,863
Property and casualty insurance		
Revenues	115,043	86,737
Earnings from operations	49,780	32,498
Life insurance		
Revenues	238,812	232,634
Earnings from operations	19,538	22,876
Eliminations		
Revenues	(12,375)	(9,060)
Earnings from operations before equity in earnings of subsidiaries	(1,547)	(1,090)
Consolidated Results		
Revenues	5,739,747	4,541,985
Earnings from operations	1,644,997	961,147

UHAL have been slowly expanding the truck fleet, adding 10,000 trucks between March 2020 and 2022; however, the key driver has been the average revenue per truck per annum, which has bounced from $15,700 in the 2020 year via $17,520 in 2021 to a hefty $21,872 in the latest year. **That's inflation for you**! 18% compound growth in **revenue per truck** for the two years

We are unsure how sustainable this growth over the past two years will prove to be, but managements insights from the latest earnings call is encouraging with their assessment that: "*About half of the increase was coming from transactions and the other half was split between the number of miles driven by our customers and the rate that we were charging per mile.*"





What is surprising, is that these results have emerged during a period when Americans have been (proportionally) their least mobile since data was tracked, in 1948, with, according to US Census Bureau statistics, only 9.8% of the population relocating!

[20] Page 21, Amerco 10K for year to March 2022

In conclusion, we see Amerco as being able to post significant growth over the next 3-5 years. This will come at the expense of capital management – despite the gap between equity price and value (below) – with management undertaking ongoing expansion plans. Given the massive competitive advantage, this seems reasonable but does mean a lack of free cash flow to fund equity retirement. It also means that advancement in the share price will require the management growth "thesis" to play out; given their stockholding, they have plenty of incentive.

An idea of the gap between listed equity price and underlying value comes from our sum of the parts analysis. This suggests UHAL to be worth between $710 and $1016 per share in its present state, an uplift of 48 – 113% against prevailing 30 June 2022 levels:

$million	**Low case**	**High case**
Self storage property (low LSI; high = average peers)	$154/sq ft	$273/sq.foot
Implied self storage value	$7,682	$13,650
Insurers per noatation above	$860	$860
UHAL moving at 6x EBITDA (av 2021& 2022)	$8,790	$8,790
Debt	(3,380)	(3,380)
EQUITY VALUE	**13,952**	**19,920**
Per share (19.6million)	$711	$1016

Reverse engineering, at the prevailing price of $478/share, and backing out the self-storage property at low values together with insurance, we believe we are paying around $4.2billion for U-Haul, equivalent to less than 3x average EBITDA in the past two years, and very roughly 1x revenues in the year to 31 March 2022.

We believe investing in UHAL represents ownership of an entity with near monopoly attributes in one-way DIY moving; moreover, we view this monopoly as difficult to erode in a product which has little scope for future disruption. Against other comparatives with significant moats to their business, pricing power and a dominant position, we believe the calculated valuation metrics to be extremely low.

For further information:

Andrew Brown
Executive Chair
0418 215 255

STATISTICAL APPENDIX: QUARTER & FYTD TO 30 JUNE 2022

1. Monthly performance, exposure and NAV

	Investment return[21]	Cost imposition[22]	Net Return[23]	R12 Return	NAV/share pre tax (c)	Gross Exposure[24]	Net Exposure[25]
30 Jun 17				46.6%	35.5	276%	-6%
30 Jun 18				-18.8%	29.0	278%	81%
30 Jun 19				-25.8%	21.6	395%	0%
30 Jun 20				-68.0%	7.0	185%	122%
30 Jun 21				+20.3%	7.3	297%	67%
30 Jun 22				-34.0%			
				R12 return			
31 Jul 21	(0.5%)	(0.7%)	(1.2%)	25.0%	7.2	356%	74%
31 Aug 21	(4.1%)	(0.7%)	(4.8%)	29.5%	6.9	341%	122%
30 Sep 21	7.0%	(0.8%)	6.2%	24.2%	7.3	339%	125%
31 Oct 21	(1.2%)	(0.8%)	(2.0%)	11.0%	7.2	429%	56%
30 Nov 21	14.2%	(0.8%)	13.4%	12.4%	8.1	400%	41%
31 Dec 21	(1.7%)	(0.6%)	(2.3%)	8.3%	7.9	259%	183%
31 Jan 22	4.2%	(0.7%)	3.6%	15.8%	8.2	251%	229%
28 Feb 22	(15.7%)	(0.7%)	(16.3%)	(8.9%)	6.9	224%	224%
31 Mar 22	0.7%	(0.8%)	0.0%	(14.0%)	6.8	309%	133%
30 Apr 22	-14.8%	(0.9%)	-15.7%	(22.1%)	5.8	322%	202%
31 May 22	5.5%	(1.4%)	4.1%	(22.0%)	6.0	268%	207%
30 Jun 22	-19.0%	(0.8%)	-19.7%	(34.0%)	4.8	290%	226%

2. Equity exposure as at 30 June 2022[26]
(as % month end pre-tax shareholders funds):

	percent	exposures
LONG	258%	26
SHORT	-	0
FUTURES/INDEX DERIVATIVES	(32%)	
TOTAL	290%	26
NET	226%	

[21] Change in market value of all investments – cash and derivatives – after interest charges, dividends receivable, dividends and fees paid away divided by opening period net asset value and time weighted for equity raisings
[22] All accrued expenses for company administration (eg. listing fees, audit, registry) divided by opening period net asset value and time weighted for equity raisings
[23] Calculated as 2 (above) minus 3 (above)
[24] Calculated as total gross exposures being nominal exposure of all long and short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1
[25] Calculated as total net exposures being nominal exposure of all long minus short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1
[26] Figures may not sum due to rounding

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 June 2022 or such other dates which are stipulated herein. All statements are based on E72's best information as at 30 June 2022. 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.