A Perspective on Value Investing

i. Some Thoughts about a Career in Finance:
Comparing Private Equity vs. Value Investing (Warren Buffett)

ii. Analysis of Multi-bagger Stocks (>10x Returns in the Last 15 Years)

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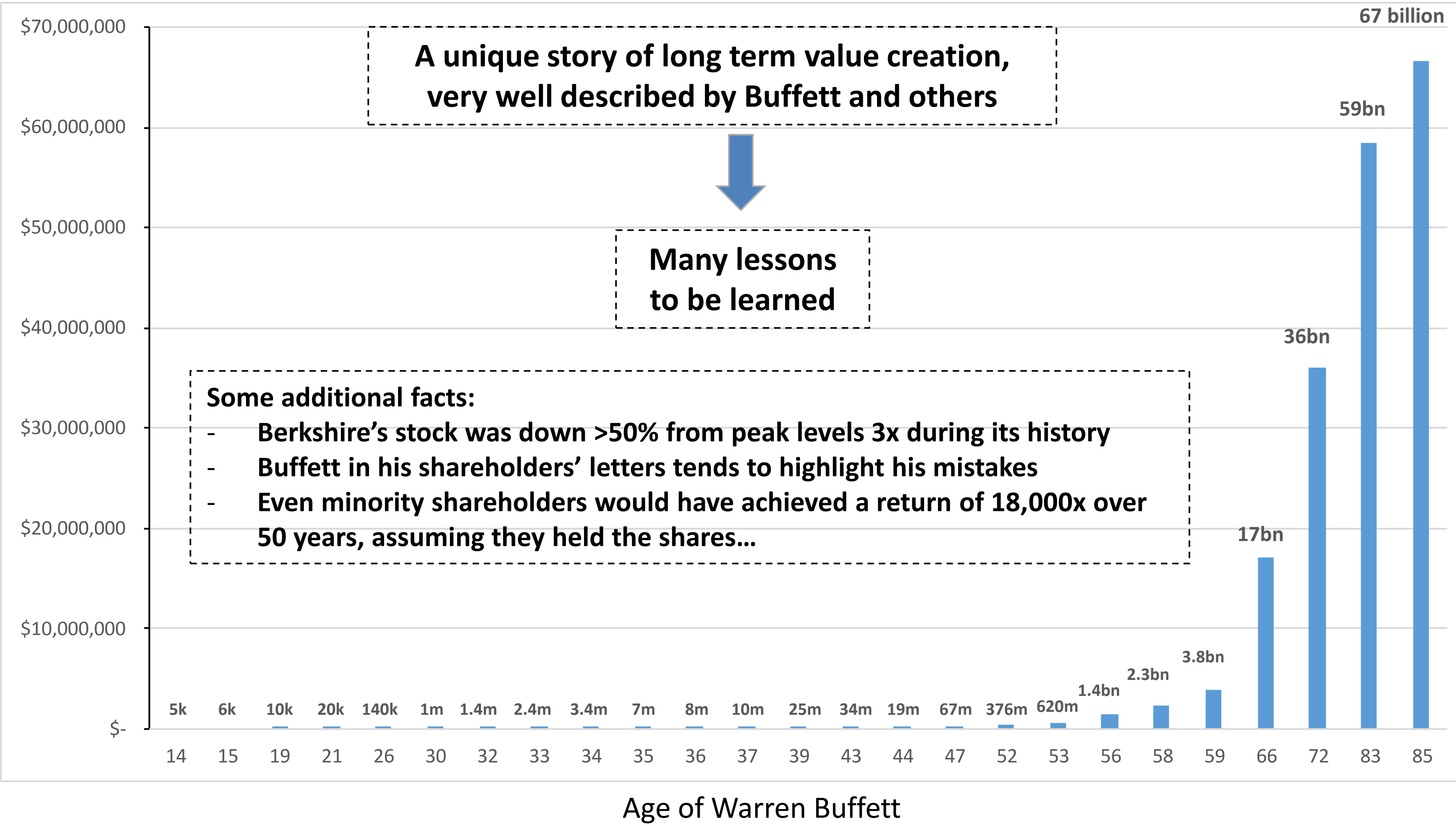
Key Questions

1. What can be learned by studying how Warren Buffett turned $ 1,000 in Berkshire Hathaway into $18 million over 50 years (1964-2014)? How replicable is Buffett's value investing approach today? And how does it compare to private equity?
2. In evaluating an investment, what are the factors and risks that need to be addressed carefully?
3. Is there a relationship between the volatility of a security and the risk of permanent loss of value?
4. Why the concept of risk-return is very different if you change the time frame from short-term (12 months) to long term (5-10 years)? Does it makes sense to evaluate investments with a 12-18 months time frame?

Evolution of Warren Buffett's Personal Net Worth

Data in USD000s (k)



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1. Some Thoughts about a Career in Finance: Comparing Private Equity vs. Value Investing (Warren Buffett)

A Few Words about my Career Background

- **2001-08** Investment Banking at **Rothschild** (Milan) and **Credit Suisse** (Milan, London)
  - Worked mainly in **mergers & acquisitions**, but also got exposure to other investment banking areas (e.g. equity capital markets, high yield, debt restructuring) as well as different industries (e.g. media, telecom, consumer, industrial, banking, insurance)
  - In 2006-07 I worked on several potential **leveraged buyouts** with private equity clients in the media / yellow pages business
- **2008-12** Investments Team at **Exor** (Turin), listed holding company
  - Member of the investment committee of JRE, a joint venture between Jardine, Rothschild and Exor to make **private equity investments** in Asia
- **2013-17** Launched **Martek Partners** (Lausanne), advisor to an investment fund in publicly listed companies with a long term value approach

Comparing Private Equity vs. Buffett's Approach

A very different approach to investments, risk-reward profile….and lifestyle

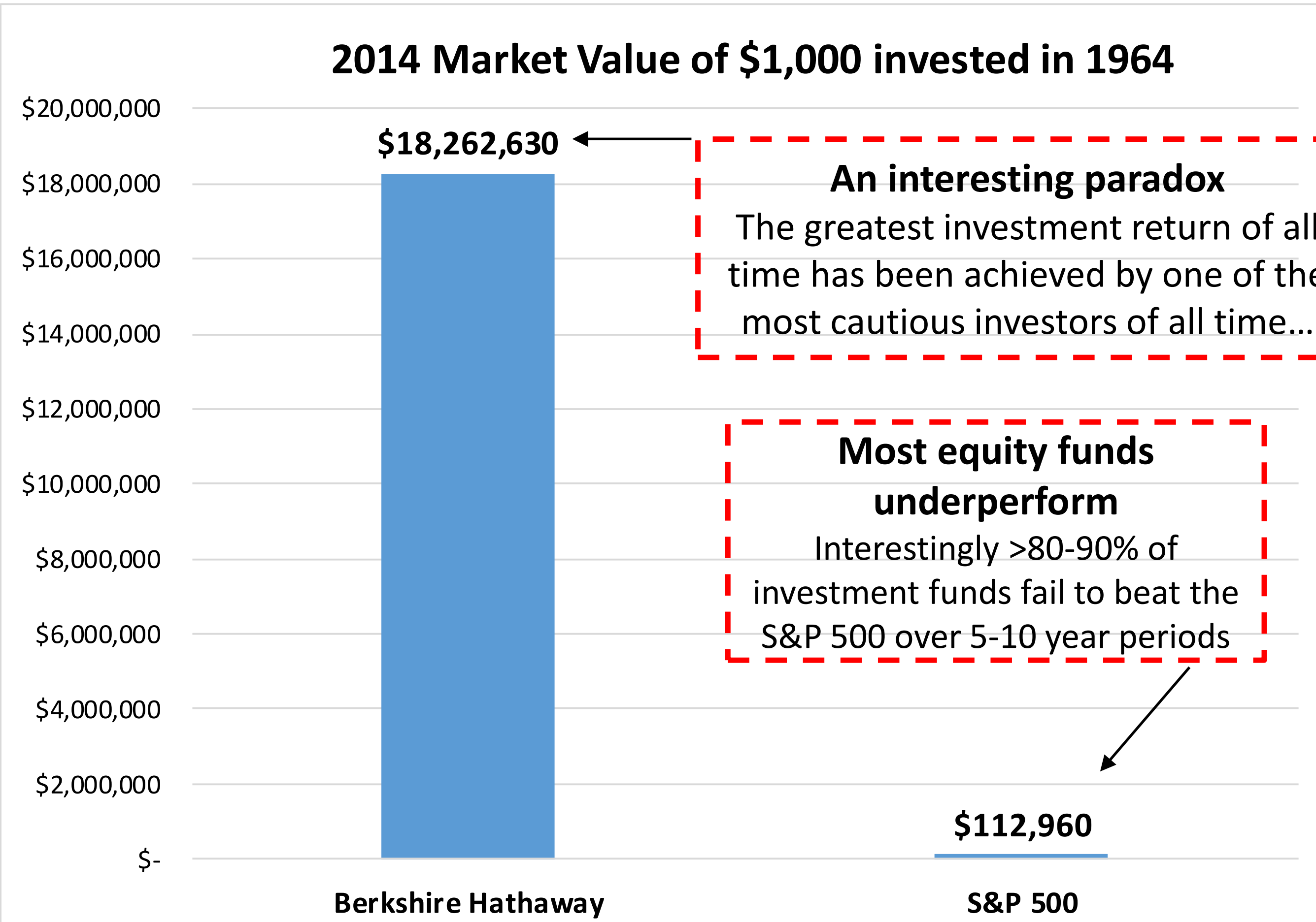
	Private Equity Approach	Warren Buffett Approach
Assessment of Investments Opportunities	Extensive due diligence (2-3 months process), detailed business plans / excel modelling. Private equity firms often participate in deal auctions, although they try to avoid them	Limited or no formal due diligence, No use of modelling / business plans Focuses on annual reports and management track record. Buffett never participates in deal auctions
Company Control / Mgmt. Change	Preference for influencing / improving company performance also by changing management	Agnostic to company control / board representation. Buys only if existing management stays in place
Use of Leverage	Extensive use of debt leverage	Generally avoids use of debt leverage
Time Allocation	Many meetings with potential company targets, management teams, bankers, consultants, etc.	Spends most of his time reading, thinking, talking to few trusted people…and playing bridge
Returns	**7-9% annual return on committed capital**(1) is considered quite good	**21.6% annual return** from 1964 until 2014

The above considerations are based on my personal professional experience (in investment banking), of course not all private equity funds follow the same approach and also Buffett's approach has partially changed overtime

(1) Private equity returns are generally calculated on invested capital, not committed capital. Nevertheless from the point of view of a limited partner of a private equity fund the return on committed capital is a better measure of the fund's performance since any committed (but not yet invested) capital needs to be kept in liquid / low yielding financial instruments (such as govt. bonds), therefore affecting the overall performance of its committed capital to the fund

Historical Returns: Berkshire vs. S&P 500

From 1964 until 2014 the stock price of Berkshire Hathaway achieved 21.6% annual return vs. 9.9% of S&P 500 (US equity index)



An interesting paradox

The greatest investment return of all time has been achieved by one of the most cautious investors of all time…

Most equity funds underperform

Interestingly >80-90% of investment funds fail to beat the S&P 500 over 5-10 year periods

On risk & volatility

- Buffett stated that he would much rather earn a lumpy 15% over time than a smooth 12%
- Berkshire Hathaway's stock was down 50% 3 times in its history

Compounded annual return 1964-2014:	**21.6%**	**9.9%**

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Source: Berkshire Hathaway 2014 annual report and SPIVA 2014 US Scorecard of investment funds

A Few Quotes from Graham, Buffett and Munger

Benjamin Graham on Value Investing and Margin of Safety

- "Price is what you pay. Value is what you get."
- "The function of the margin of safety is, in essence, that of rendering unnecessary an accurate estimate of the future."
- "The intelligent investor is a realist who sells to optimists and buys from pessimists."

Warren Buffett on Risk

- "It seems, for whatever reason, that volatility is often synonymous with risk for most people. I've never viewed it that way. Volatility has never been a proxy for risk,[...] When I think of risk, I think of permanent loss of capital."
- "Risk comes from not knowing what you're doing."
- "Risk can be greatly reduced by concentrating on only a few holdings."

Charlie Munger on the Importance of Reading

- "In my whole life, I have known no wise people who didn't read all the time - none, zero. You'd be amazed at how much Warren reads - at how much I read."

Berkshire Hathaway's Key Success Drivers

1. **Being a learning machine**: Buffett spends 50% of his time reading. According to his business partner Charlie Munger "Warren [Buffett] is one of the best learning machines on this earth. […]. If you stop learning in this world, the world rushes right by you"
2. **Sticking to his "circle of competence"**: Buffett invests only in businesses he understands and is able to predict, avoiding industries that are too competitive or driven by disruptive innovation
3. **Focusing on long term investing and avoiding permanent loss of capital**: Buffett is well known to be indifferent to short term price volatility (which is effectively a measure of other investors' uncertainty regarding value), but is very much focused on avoiding permanent loss of capital
4. **Unique source of leverage through insurance "float"**: Berkshire Hathaway invests the premiums of its reinsurance and insurance companies, which effectively provide Berkshire with a permanent and extremely low-cost source of capital, referred by Buffett as the "float"
5. **Becoming the preferred buyer of companies**: since Buffett, unlike private equity players, does not sell his majority-owned businesses, over time he has become the "preferred buyer" for owners who care about their business future prospects, even after they sell them

Other Value Investors with Great Track Records

Warren Buffett is not the only one to have achieved great long term returns, here are some other examples of value investors to learn from

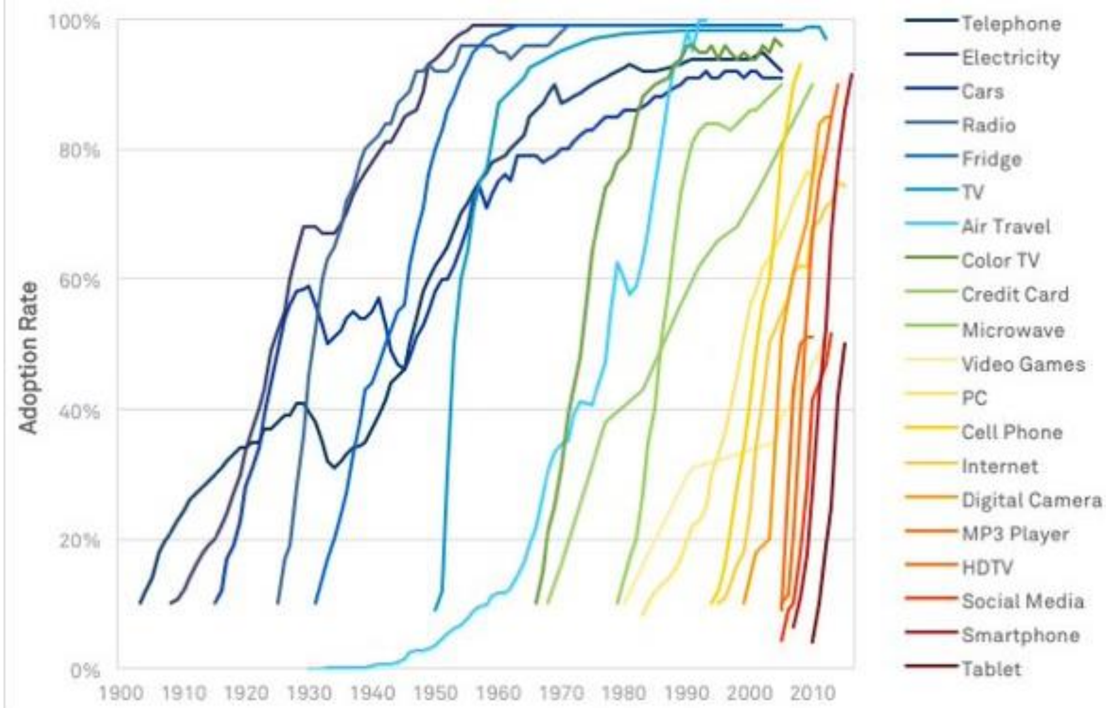
- Seth Klarman, Baupost Capital (investment focus: USA, Global)
- Mattias Westman, Prosperity Capital Management (investment focus: Russia)
- Chetan Parikh, Jeetay Investments (investment focus: India)
- Li Lu, Himalaya Capital (investment focus: Global)
- Lei Zhang, Hillhouse Capital (investment focus: China)

Why Value Investing is not More Widespread?

According to value investor Li Lu less of 5% of public equity investors can be considered "real value investors". If over time value investing works why is it not more popular?

- **Being a "rational contrarian" is tough (in any job….not just investing)**: as JM Keynes once said: "<u>Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally</u>". This is why most fund managers prefer to <u>"follow the crowd"</u> rather than trying to evaluate facts with good judgement and try to be right (e.g. tech bubble in 2000 or subprime mortgage investments in 2006-07)
  - <u>Continuous performance benchmarking</u> (vs. indices and other fund managers) pushes investors to behave in a homogenous way, similarly to sardines' "swarm behavior" in front of a shark predator…
- **The human brain is the result of millions of years of evolution and thus it is not necessarily "fit for decision making in complex/uncertain situations"** (stock exchanges, globalization, technological disruption), which are a relatively recent phenomenon (say 40-50 years...)

Technological Disruption & Value Investing



1. Buffett succeeded by investing in businesses, which benefited from "gradual disruptions" (i.e. decades of 10-15% annual growth), thus more predictable– e.g. Wal-Mart, AmEx, Capital Cities/ABC
2. In the last 10 years Internet and mobile computing have drastically accelerated the adoption rate of new technologies and new consumer habits (e.g. Facebook, Instagram, Google, Amazon, etc.)
3. The acceleration of technological change in the last few years has reduced the share of "easy to predict" companies, which are not subject to tecnological obsolescence
4. Ironically, <u>in some cases </u>it is becoming more risky to bet that things will stay the same (Buffett's traditional approach) vs. assuming that significant change will take place (venture capital approach)

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On the Importance of a Long Term Perspective

Try to estimate the long term returns of these investments

Stocks / Bonds / Equity Indices	Entry Date	Exit Date	Performance
UniCredit (main European bank)	Apr-2007	Apr-2014	
Deutsche Telecom (German telecom company)	Mar-2000	Apr-2014	
General Electric (industrial conglomerate)	Aug-2000	Apr-2014	
Coca Cola (leading consumer brand)	Jul-1998	Apr-2014	
Greek Government Bonds	2008	2012	
Nestle Pakistan in USD	Sep-2001	Apr-2014	
Russian equity index in USD	Oct-1998	Apr-2014	
Italian equity index in USD	1948	1962	
American Express (leading credit card company)	Mar-2009	Apr-2014	
McGraw Hill (leading rating agency)	Jun-2010	Apr-2014	

On the Importance of a Long Term Perspective

And here are the answers, not always so obvious ….

"Blue chip" and government bonds investments generally considered safe that over time ended up being not so safe

Stocks	Entry Date	Exit Date	Performance	Market perception at entry date
UniCredit (European bank)	Apr-2007	Apr-2014	-90%	Solid and well managed bank with pan-european ambitions
Deutsche Telekom (German telecom company)	Mar-2000	Apr-2014	-88%	Large player in fast growing Internet/telecom sector
General Electric (industrial conglomerate)	Aug-2000	Apr-2014	-57%	One of the best managed industrial conglomerates globally
Coca Cola (leading consumer brand)	Jul-1998	Apr-2014	-9%	Dominant player in beverages, with growth potential in emerging markets
Bonds				
Greek Government	2008	2012	-76%	Safe government bonds, with better yield vs. other EU government bonds

Investments perceived to be too risky that ended up offering exceptional long term returns

Stocks / Equity Indices	Entry Date	Exit Date	Performance	Market perception at entry date
Nestle Pakistan in USD	Sep-2001	Apr-2014	38.4x	Great company, but country is too risky due to political uncertainty
Russian Equity Index in USD	Oct-1998	Apr-2014	28.7x	Bankrupt state with no future, simply too risky
Italian Equity Index in USD	1948	1962	10.0x	Italian democracy after WWII was too politically unstable
American Express	Mar-2009	Apr-2014	7.2x	Too risky due to losses on consumer credit and liquidity issues
McGraw Hill (owner of S&P rating agency)	Jun-2010	Apr-2014	2.7x	Broken business model due to regulatory uncertainty and lawsuits

There can be a wide discrepancy between (i) the short term market perception of risk and (ii) the long term performance of an investment. The risk-return profile of an asset is complex, not always well assessed by the market and impossible to reduce into simple mathematical formulas …

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Source: Capital IQ, Global Financial Data, Moody's 2012 report: "Investor Losses in Modern-Era Sovereign Bond Restructurings"
Note: Returns shown above do not include distributed dividends, nor the value of any rights in relation to rights issues during the investment period (e.g. Unicredit)

2. Analysis of Multi-bagger Stocks (>10x Returns in the Last 15 Years)

Key Insights from an Historical Analysis – April 2014

An earlier version of this analysis was mentioned in Chris Mayer's book: "100 Baggers: Stocks That Return 100-to-1 and How To Find Them" published in September 2015

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Source of Inspiration for this Analysis

The Book: 100 to 1 in the Stock Market by Thomas Phelps (1972)

- The analysis: in 1972 Thomas Phelps wrote a book about a selection of 360 US-listed securities (both equities or bonds) that achieved at least 100x return from their low point in the 1932-1967 period up to their 1971 market valuation
- Key principles: Phelps outlines the principles that are needed to achieve 100x returns, effectively summarized by George F. Baker's (1840-1931) dictum, mentioned in the book:
  - ***To make money in stocks you must have "The vision to see them. The courage to buy them and the patience to hold them".*** According to Phelps, patience is the rarest of the three
- One investor who achieved 100x return: Phelps mentions the story of Paul Garrett (public relations manager at General Motors) who after retirement from GM in 1956 at the age of 64 decided to concentrate his savings in 1 stock and achieve extraordinary long term returns. According to Mr. Garrett the selected company must be:
  1. Small
  2. Relatively unknown
  3. Distinguished by a unique and useful product
  4. Led by a strong, progressive and research-minded management
  - After an initial screen of 50 stocks, Mr. Garrett finally selected Haloid (which then became Xerox) bought at $1 in the 1955-59 period and sold at $125 in 1971

10x Return Stocks in the Last 15 Years

How easy was it to identify, buy and hold 10x baggers in the last 15 years?

- Objective of the analysis: to run an empirical analysis of multi-bagger stocks similar to what Phelps had done in 1972, but focused only on stocks (not bonds) and with a shorter timeframe (15 years instead of 40) in order to better study each case and better assess the degree of predictability of the extraordinary long term returns in each case
  - Despite the subjectivity of this ex-post analysis, it is still useful to better understand
    1. What drives long term outperformance of a stock (earnings growth, trading multiple expansion, good capital allocation?)
    2. How cheap can a stock get when it is out of favour?
    3. What do most market participants focus on vs. what they should be focusing on?
- Some key facts about the analysis
  - Today there are ~21,000 listed companies with a market cap of at least $100m(1)
  - Out of this sample, there are a total of 3,795 listed equities (18% of the initial sample) that achieved >10x returns from their low point in the last 15 years up until their current market valuation (April 2014)(2) – this sample obviously includes many unpredictable multi-baggers...
    - Note: returns have been calculated in USD and do not include any distributed dividends
  - Out of this second sample, I have selected (with a great degree of subjectivity…), a sample of 100 "more predictable" multi-bagger stocks, which a rational and long term oriented investor had a "reasonable chance" to identify, purchase and hold over the long term

(1) Source: Capital IQ

(2) A 10x return in 15 years equals to 17% return p.a. (this is the lowest return in the sample which shows returns ranging from 10x to 1,636x)

10x Return Stocks in the Last 15 Years

Some important warnings

1. <u>This is an unscientific and backward-looking analysis</u>. We are all smarter in retrospect, since it is somewhat easier to analyse the past instead of predicting the future …
   – A great book on the pitfalls of backward-looking analysis: *The Halo Effect* by P. Rosenzweig
2. <u>Only the winners are visible</u>. The losers (i.e. stocks that looked like long term multi-baggers, but ended up being bad investments) are invisible to us and are not present in the sample
   – In fact if after this presentation you feel ready to go hunting for the next multi-bagger, I would strongly recommend to read books about investment/business failures such as:
      i. *The Billion Dollar Mistake* by S. Weiss (about mistakes made by great investors)
      ii. *Billion Dollar Lessons* by B. Carroll and C. Mui (about business mistakes)
      iii. *The Black Swan* by N. Taleb (not strictly a book about failure, but read it anyway)
3. <u>The selection of "reasonably predictable" multi-baggers is very subjective, discretionary and depends on one's circle of competence</u>. Defining the circle of competence is probably one of the most critical factors in determining an investor's future success…
4. <u>Excessive trading multiple re-rating from the low point until today</u> often is a key component of the extra returns of the multi-baggers, therefore one should discount the extra-returns for this "speculation-related" factor (current market prices in fact are generally quite expensive…)

Despite the pitfalls of a backward-looking analysis, looking at a wide range of empirical cases of multi-baggers can make you a better investor

A Few Examples of Multi-bagger Stocks

Case 1: REA Group (Australia)

A fast-growing, disruptive business model in online real estate classifieds

- Always looked expensive on traditional multiple basis
- In 2001-04 period was it already an inevitable, dominant (and profitable) business model?

REA Group

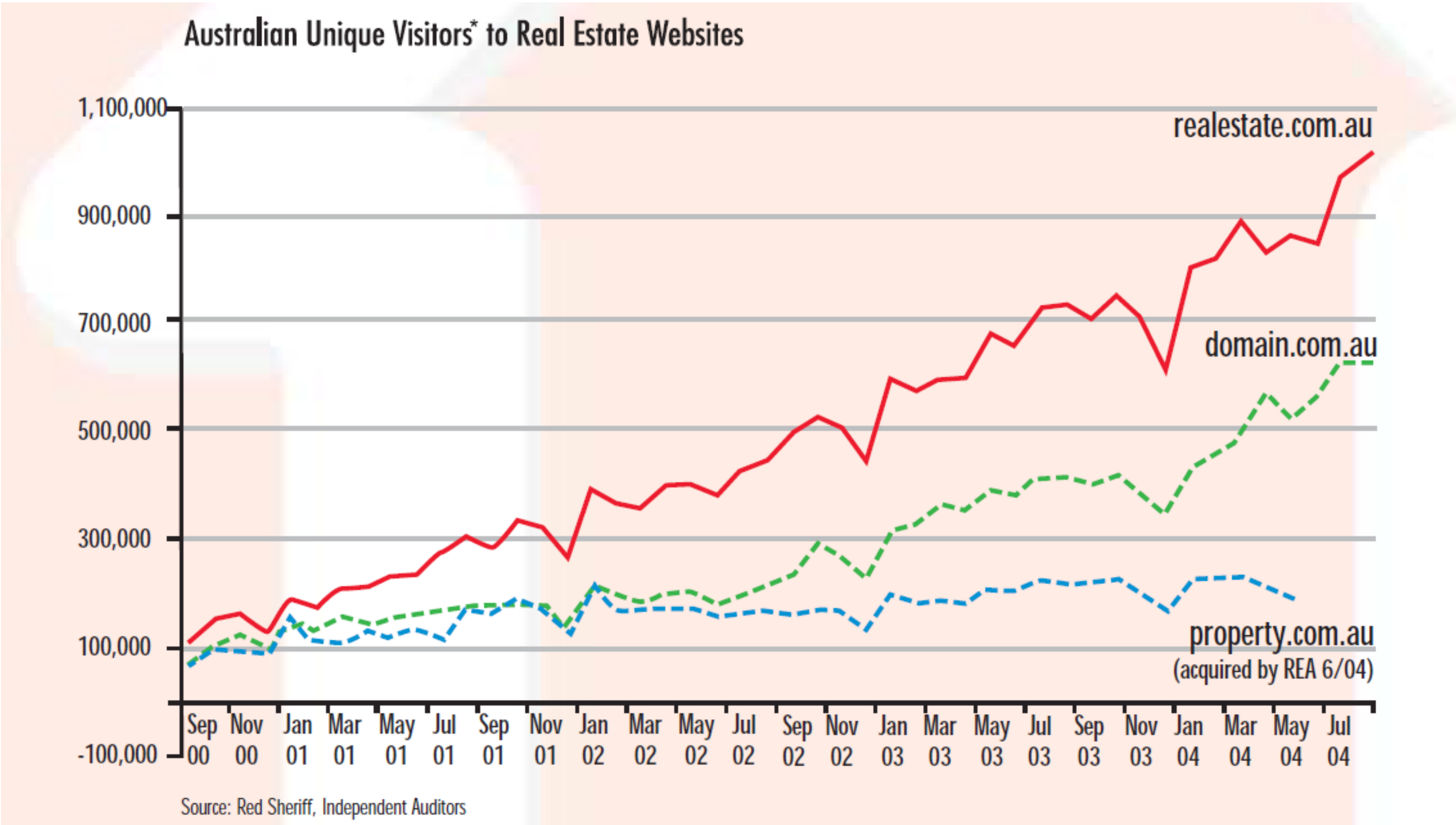
Sept. 2001 - November 2004 period: stock trading below AUD1 per share

- The beginning: set up in 1996, the company was listed on the Australian stock exchange in 1999, during the Internet bubble. The company grew very fast but was losing money even faster
- News Ltd involvement and turnaround: News Ltd invested through a capital increase in 2000 (taking a 44% stake) and supported a turnaround of the business. The company became profitable in February 2003 (in 2002 it was nearly breakeven from a cash flow perspective)
  - From June 2003 annual report: “The last year has also seen realestate.com.au continue to be the most popular real estate site in the country. In August 2003, realestate.com.au had a readership of over 800,000. This has grown by 65% over the last 12 months and continues to be greater than its two closest competitors combined.”[…] “It is estimated that over 40% of Australian real estate agents now use realestate.com.au [This share reached 65% in 2004].”
- Management: by 2003 the senior management team (which included co-founder Martin Howell who remained Chief Technology Office) included top managers from real estate sector including
  - John McGrath (Chairman since 1999, age 40), founder in 1989 of McGrath Partners Estate Agents, Australia’s leading real estate agent
  - Sam White (board member since 2002, age 32), chairman of Ray White Real Estate
  - Simon Baker (CEO since 2001), executive at News Interactive, previously at McKinsey
- Competition: mainly print media players, who were fearful of the Internet and did not want to disrupt their very profitable print classified business, which had a higher cost structure
  - Fairfax in 1999 launched domain.com.au, as part of Domain, its print real estate unit

REA Group

Market Share Evolution among Australian Real Estate Online Players

- REA Group (realestate.com.au) was n.1 player since 2000 and became the clear leader in 2002-03
- This is a "winner takes all" business model, so betting on the existing leader increased the chances of success…



REA Group – 1,600x Return from Sept. 2001

Share Price Performance and Market Multiple Evolution Since September 2001

Data in USDm	Jun 01	Jun 02	Jun 03	Jun 04	Jun 05	Jun 06	Jun 07	Jun 08	Jun 09	Jun 10	Jun 11	Jun 12	Jun 13
Minimum Mkt Cap	2	2	6	16	57	116	353	483	246	544	1,096	1,415	1,788
Sales	2	3	6	13	25	45	91	128	135	165	256	284	308
Sales Growth (1)	54%	55%	61%	101%	75%	81%	78%	24%	26%	16%	23%	16%	21%
EBIT Margin	(160%)	(100%)	(16%)	13%	16%	21%	17%	30%	33%	36%	38%	40%	43%
EBIT Growth (1)	NM	NM	NM	NM	116%	134%	45%	120%	36%	28%	28%	22%	31%

Current Mkt Cap: >USD5bn

(1) Sales and EBIT growth rates are calculated in local currency

REA Group – 1,600x Return from Sept. 2001

The Company Today

- The business: REA Group (formerly called realestate.com.au) with sales of >USD300m is the dominant player in online real estate advertising in Australia. Its core business consists of displaying residential and commercial real estate listings on its websites in exchange for a monthly fee paid by real estate agents. Australia/NZ business generates about 90% of revenues. International operations include Italy, Luxembourg and HK
- Main shareholder: News Ltd, which owns 61% stake since 2008 (bought initial stake in 2000)
- 2013 key performance metrics data
  - Average monthly visits to its Australian websites: 20.6m, equal to 2.5x its nearest competitor
  - Average monthly revenue per agent in Australia: AUD1,989 (~USD1,840)
  - Number of paying agents globally: 21,440
- Last 3 years financial performance
  - Sales CAGR: 21%
  - Return on Equity (avg.): 31%
  - EBIT[1] margin (avg.): 40%
- Current market data
  - Market cap: USD5,440m
  - EV / LTM EBIT: 32x (looks expensive…)

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(1) For the purposes of this presentation EBIT (Earnings before Interests & Taxes) is the same as operating profit and it does non include currency exchange gains / losses and other non-operating income / expenses

REA Group – 1,600x Return from Sept. 2001

Company's Evolution: Selected Data

Aug '05: News Ltd unsuccessful tender offer at AUD2 per share, raised to AUD2.5

Data in USDm, unless otherwise indicated	Jun 01	Jun 02	Jun 03	Jun 04	Jun 05	Jun 06	Jun 07	Jun 08	Jun 09[1]	Jun 10	Jun 11	Jun 12	Jun 13
AUD/USD Exchange Rate	0.51	0.56	0.67	0.70	0.76	0.74	0.85	0.96	0.81	0.85	1.07	1.02	0.92
REA Group - Price Range during the Year													
High Price per Share (AUD)	0.29	0.22	0.36	1.00	2.16	4.04	6.19	7.45	6.23	12.50	14.05	15.10	33.30
Low Price per Share (AUD)	0.09	0.05	0.12	0.26	0.75	1.46	3.75	4.10	3.10	5.34	9.55	10.61	13.33
- Implied USDm Market Cap	2	2	6	16	57	116	353	483	246	544	1,096	1,415	1,788
High Price / Low Price	3x	4x	3x	4x	3x	3x	2x	2x	2x	2x	1x	1x	2x
REA Group - Key Operating Metrics													
Global Paying Agents	1,400	1,901	3,173	5,207	6,414	10,713	17,011	22,478	18,457	21,225	22,919	21,448	21,440
Global Monthly Unique Browsers (m)			0.7	1.0	1.8	5.0	7.1	8.2	10.0	9.3	11.6	NA	46.3
Australian Paying Agents	1,400	1,901	3,173	5,207	6,414	7,601	8,410	9,190	9,332	9,612	9,559		
Australian Avg. Annual Revenue per Agent		Between USD1-3,000						10,150	10,068	12,875	18,746	18,842	21,850
Employees		38	60	103	159	294	479	667	526	526	607	>600	>600
REA Group - Key Financial Metrics													
Sales	2	3	6	13	25	45	91	149	135	165	256	284	308
Growth (Local Currency)	*54%*	*55%*	*61%*	*101%*	*75%*	*81%*	*78%*	*45%*	*8%*	*16%*	*23%*	*16%*	*21%*
Free Cash Flow	(2)	(0)	0	2	4	7	15	12	22	48	78	95	127
As % of Sales	*(94%)*	*(5%)*	*8%*	*18%*	*16%*	*15%*	*17%*	*8%*	*16%*	*29%*	*30%*	*34%*	*41%*
Capital Increase	1	-	-	0	0	20	-	-	-	-	-	-	-
N. of shares Outstanding	65	91	92	104	116	119	127	127	127	128	129	131	132
Shareholders Equity	4	2	1	8	14	53	72	110	75	118	211	256	288
Net Cash	0	0	1	2	6	8	2	7	33	75	148	186	236

Attractive low price entry point, high stock volatility driven by uncertainty

40% market share in Australia + low revenue per agent = an insight for REA's great long term potential?

(1) In 2009 REA Group sold its loss making businesses in the UK (Propertyfinder Group) and Emirates

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REA Group – 1,600x Return from Sept. 2001

How most investors viewed REA Group in 2001-04 period

- Small, loss-making (and expensive) company with an untested business model. How can one assess the value of the business? Likely to be crushed by bigger, cash-rich traditional players?

What investors should have focused on

- Leading player with a disruptive and scalable business model - since 2001 REA Group was the n.1 player in online real estate advertising and its market share had been growing since then, becoming dominant in 2003-04 period (in June 2004 it acquired the third player)
  - 2nd player, Domain.com.au was part of the print classified business owned by Fairfax. It is difficult for an incumbent to disrupt itself (print and digital have different cost structures)
  - As Martin Howell (co-founder of REA Group) said: "Before we listed [REA Group in 1999] I was amazed that we didn't get any offers from Fairfax to buy us. It was because of the fear of cannibalisation and thinking the newspapers would be around for 100 years."
- Estimating the size of the company in 10 years: assuming that REA Group was going to remain n.1 in online real estate classified, one could have estimated its long term profit potential considering (i) the number of real estate agents in Australia and (ii) the superior value proposition offered by REA Group to agents vs. traditional print classified (in 2008 the cost for a 1/4 page newspaper ad was AUD400-2,000 vs. AUD17 per property per month on REA's website)
- Majority shareholder with right approach: News Ltd supported REA Group in its difficult initial phase but decided to keep it entirely independent (unlike Fairfax)
- Great management team (most also shareholders) with extensive real estate knowledge

A Few Examples of Multi-baggers Stocks

Case 2: Philippine Seven (Philippines)

A neglected, 300+ stores 7-Eleven licensee, waiting to be discovered

- Extremely low market valuation combined with relatively poor economics…
- ….can lead to outstanding long-term returns driven by financial performance improvements and multiple re-rating
- Was it predictable?

Philippine Seven

The beginning and 2005-09 period, with the stock trading below PHP5 per share

- The beginning: in 1982 Vicente T. Paterno (founder and current chairman) acquired the license to the 7-Eleven brand for the Philippines market and started operations in 1984
  - 1984-98: set up ~100 owned stores, financed mainly through banks loans
  - February 1998: IPO to repay bank loans
- 2000-04: friendly takeover bid from President Chain Store Corporation of Taiwan ("PCSC") in 2000 for 50.4% stake at PHP8.3 per share (vs. IPO price of PHP4.4). In 2000 Mr Paterno was already 75 years old and welcomed PCSC role as majority owner since it could provide technical support in strengthening PSC's organizational structure and operating systems. In fact PCSC in 2000 operated/franchised >2,600 7-Eleven stores in Taiwan
  - In 2004 after putting in place the right IT systems and distribution infrastructure, PCSC started its franchising business (share of franchised stores went from 32% in '05 to 69% in '13)
- Management: the company has been run by founder and current Chairman Vicente T. Paterno (MBA at Harvard, Minister of Public Highways in 1979-80, President of the Philippine National Oil Company in 1986-87, senator in 1987-92) and his son Jose Victor P. Paterno (President and CEO since 2005, joined the company in 1993)
  - Interestingly Vicente T. Paterno's grandfather, Pedro Paterno, was prime minister of the first Philippine republic in 1899
- Competition: PSC with ~40% market share, has always been the leading player in convenience stores in the Philippines, followed by Mercury Self-Service (~30%) and Ministop (~15-20%)

Philippine Seven

Assessing Philippine Seven's Management and Company Culture

Quotes from Founder and Chairman Paterno

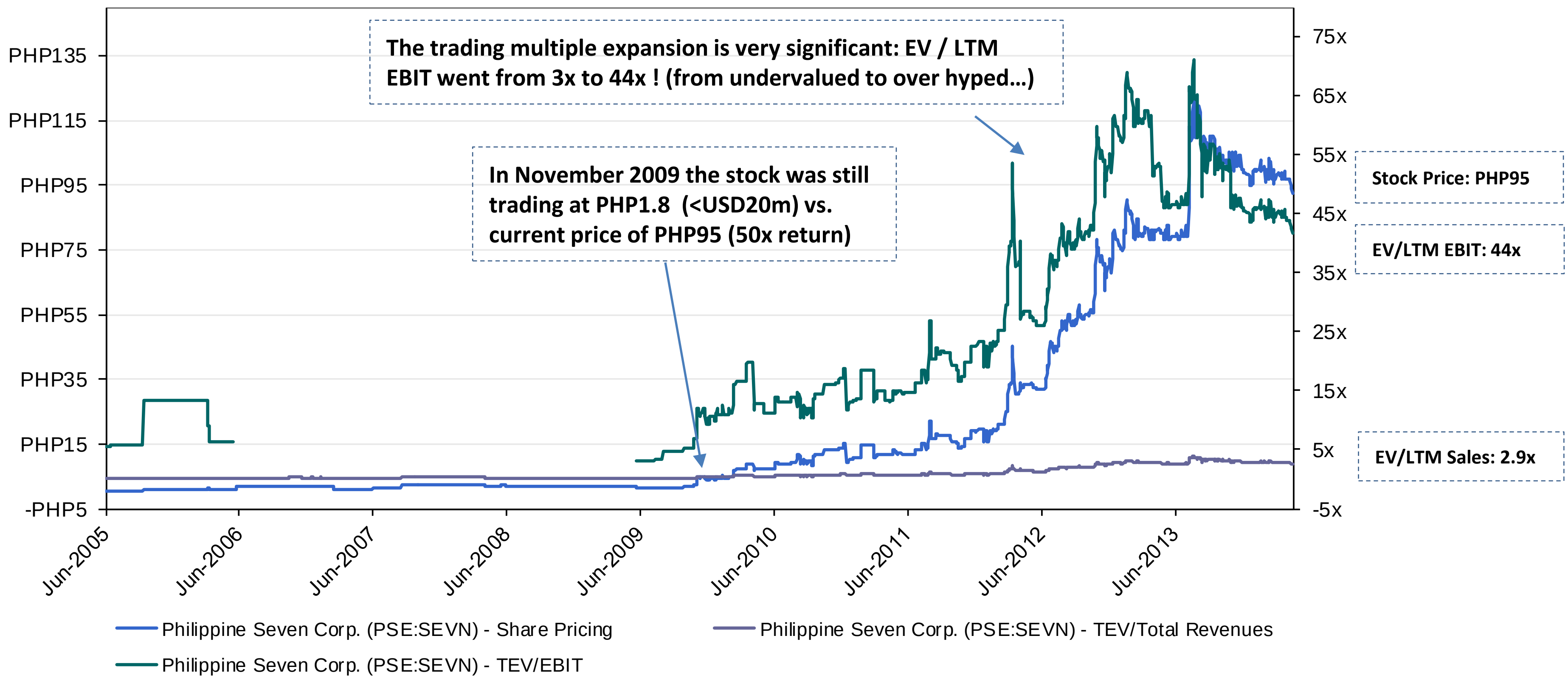
- <u>On long term thinking (source: March 2009 article)</u>: "We think several years ahead. Take franchising, for example. We only started doing it when we had over 10 years of experience under our belt—we didn't want to go too fast and get it wrong. It might make our numbers look good in the short term, but there are too many examples of companies who made a mess of things by franchising when they weren't ready."
- <u>On being conservative on projections (source: 2010 annual report)</u>: "We must advise our valued shareholders however not to expect the favourable rates of increase in earnings achieved in the last two years to be sustained. In those years the company reaped the early benefits from improvements management had made in the years since 2005"

Example of Philippine Seven's early Focus on Best Practises and Procedures in setting up and managing 7-Eleven Stores

- In 1983 in order to apply Southland's technology (Southland was the US company, owner of the 7-Eleven brand) in all phases of managing a 7-Eleven convenience store, PSC sent five of its senior employees to various Southland installations in the US. The so-called Five-Man Team left on February 15, 1983 to undergo a five-week in-depth training in their respective fields. Upon their return to the country, the Five-Man Team immediately set out to practice what they have learned from the functional training: site selection, design and construction of the first 7-Eleven store, negotiation with suppliers, ordering of equipment, recruitment and training of the first batch of employees

Philippine Seven – 200x Return from June 2005

Share Price Performance and Market Multiple Evolution Since June 2005



Data in USDm	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13
Minimum Mkt Cap	5	7	10	18	14	41	104	165	827
Sales	87	101	130	124	144	191	237	317	364
Sales Growth (1)	16%	8%	8%	10%	14%	24%	25%	25%	24%
EBIT Margin	(3%)	2%	2%	3%	4%	5%	5%	5%	6%
EBIT Growth (1)	NM	NM	45%	120%	36%	28%	28%	22%	31%

Current Mkt Cap: >USD1bn

(1) Sales and EBIT growth rates are calculated in local currency

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Philippine Seven – 200x Return from June 2005

The Company Today

- The business: Philippines Seven Corp ("PSC") is the leading convenience store chain in the Philippines, with >1,000 stores under the 7-Eleven brand. Convenience stores are small retail venues open 24 hours and 7 days a week, selling various food, beverages, groceries and personal care items
- Main shareholder: President Chain Store, also a licensee of 7-Eleven in Taiwan, which owns 52% of the company (bought majority stake in 2000). President Chain Store is in turn controlled by Taiwanese food group Uni-President Enterprises Corp
- 2013 key performance metrics data
  - N. of convenience stores: 1,008, of which 69% are franchised
  - Market share in convenience stores in the Philippines: 47%
  - Average n. of people transacting per day per store: 1,012
  - Average purchase: USD1.2
- Last 3 years financial performance
  - Sales CAGR: 25%
  - Return on Equity (avg.): 28%
  - EBIT margin (avg.): 6%
- Current market data
  - Market cap: USD1bn
  - EV / LTM EBIT: 44x (up from 3x in 2009)

Philippine Seven – 200x Return from June 2005

Comparing Philippine Seven vs. Peers in 2009……and in 2013

	Philippine Seven	President Chain Stores	CP ALL Public	Convenience Retail Asia
Brand	7-Eleven	7-Eleven	7-Eleven	Circle K
Country	Philippines	Taiwan	Thailand	HK and Other Main Cities in China
What we would have seen in 2009				
2008 Sales (USDm)	124	4,448	3,708	429
Market Position	N.1	N.1	N.1	N.2
Key Operating Metrics (2008)				
Market Share	41%	52%	>70%	25%
N. of Stores	368	4,800	4,778	500
% of Franchised Stores	55%	90%	38%	7%
Financial Performance (avg. 2006-08)				
Sales CAGR	9%	5%	12%	22%
ROE	8%	20%	22%	14%
Operating Margin	3%	4%	1%	3%
2008 Operating Profit per Store (USD000s)	10	36	21	28
Market Valuation in 2009				
Average Market Cap Valuation in 2009 (USDm)	29	2,259	2,120	185
- Implied Market Valuation Per Store (USD000s)	80	471	444	371
Minimum Market Cap Valuation in 2009 (USDm)	14	1,824	1,438	165
- Implied Market Valuation Per Store (USD000s) (1)	37	380	301	330
What actually happened				
Market Cap Today (USDm)	1,013	7,549	12,213	501
- Implied Market Valuation Per Store (USD000s)	1,004	1,532	1,644	845
Sales CAGR 2008-13	22%	8%	17%	8%
2013 Margin	6%	5%	5%	4%
2013 Operating Profit per Store (USD000s)	23	69	63	37

PSC's relatively poor financial performance vs. peers resulted in an extremely cheap valuation per store: only USD37,000 per store at 2009 minimum price level (vs. USD300-380,000 of peers)

Today's valuation is more in line with peers, after dramatic improvement in profitability

(1) Calculated based on the n. of stores as of 31 December 2008

Note: in 2009 companies shown in the table above had positive net cash position, which has been ignored for the purposes of calculating the implied market value per store (which considers only the market cap)

Philippine Seven – 200x Return from June 2005

Company's Performance: Selected Data

Low price entry point, only USD20-50,000 per store

Profitability of the business rises driven by the higher share of franchise stores

Data in USDm, unless otherwise indicated	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13
PHP/USD Exchange rate	53	49	41	47	47	44	44	41	44
Philippines Seven - Price Range during the Year									
High Price per Share (PHP)	1.0	2.1	2.2	2.6	5.0	15.1	21.9	80.0	120.9
Low Price per Share (PHP)	0.6	0.8	1.1	1.7	1.4	4.1	9.9	15.9	74.8
- Implied Market Cap in USDm	5	7	10	18	14	41	104	165	827
- Implied Market Cap / Store in USD000s	18	27	33	49	30	74	150	199	820
High Price / Low Price	2x	3x	2x	2x	4x	4x	2x	5x	2x
Market Share in Convenience Stores in the Philippines									
Philippine Seven	42%	38%	37%	41%	43%	47%	50%	45%	47%
Mercury	32%	37%	37%	32%	28%	24%	25%	33%	32%
Philippine Seven - Key Operating Metrics									
Avg. n. of People transacting per Day per Store	1,225	1,144	1,197	1,136	1,032	1,045	1,000	988	1,012
Average Purchase (USD)	0.8	0.9	1.1	1.0	1.0	1.1	1.1	1.2	1.2
N. of Stores	265	257	311	368	447	551	689	829	1,008
Owned Operated Stores	179	137	151	167	193	210	245	275	317
Franchised Stores	86	120	160	201	254	341	444	554	691
% of Franchised Stores	32%	47%	51%	55%	57%	62%	64%	67%	69%
Operating Profit per Store (USD000s)	(9)	8	10	10	13	17	18	21	22
NWC as % of Sales	1%	2%	4%	1%	1%	(2%)	(1%)	2%	3%
Sales / Capital Employed (E + D)	5x	5x	5x	5x	5x	6x	6x	5x	5x

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Philippine Seven – 200x Return from June 2005

Company's Performance: Selected Data

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- Implied Market Cap / Store in USD000s	18	27	33	49	30	74	150	199	820
High Price / Low Price	2x	3x	2x	2x	4x	4x	2x	5x	2x
Philippine Seven - Key Financial Metrics									
Total Sales	87	101	130	124	144	191	237	317	364
Growth (local currency)	*22%*	*16%*	*8%*	*8%*	*10%*	*14%*	*24%*	*25%*	*25%*
Franchise Sales	1	3	5	5	7	10	12	17	31
As % of Total Sales	*1%*	*3%*	*4%*	*4%*	*5%*	*5%*	*5%*	*5%*	*8%*
Operating Profit	(2)	2	3	4	6	9	12	17	23
Margin	(3%)	2%	2%	3%	4%	5%	5%	5%	6%
Operating Cash Flow	3	7	6	11	12	15	18	21	41
As % of Sales	4%	7%	5%	9%	8%	8%	8%	7%	11%
Capex	(4)	(5)	(5)	(9)	(8)	(15)	(16)	(21)	(27)
Free Cash Flow	(1)	2	1	2	4	(0)	2	0	14
As % of Sales	(1%)	2%	1%	1%	3%	(0%)	1%	0%	4%
No Capital Increases in the period. Number of Shares Outstanding constant at 458.4m									
Shareholders Equity	11	13	16	16	20	27	34	47	57
Net Cash / (Net Debt)	(3)	(2)	(2)	(0)	2	1	1	(1)	9

Low price entry point, only USD20-50,000 per store

Higher share of sales from franchised stores is a key driver of higher profitability and cash flow

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Philippine Seven – 200x Return from June 2005

How most investors viewed Philippine Seven until end of 2009

- Small, unprofitable convenience stores retailer in a remote emerging market with low spending per capita, furthermore trading in the stock was relatively illiquid

What investors should have focused on

- Leading retailer in the convenience store market in the Philippines trading at a extremely depressed valuation – in 2005-09 period PSC had 270-450 convenience stores, so the market was implying a valuation per store of USD20-50,000, very low considering the following:
  1. PSC held market leadership in a very attractive market (90m population, high population density and an urbanisation rate similar to Japan, where 7-Eleven stores are very popular)
  2. Despite low profitability, store traffic was high (although per capita spending was low)
  3. The market valuations of peers, which was equal to ~USD300-500,000 per store in 2009
  4. The profitability per store of peers, which was around ~USD20-35,000 in 2009, indicating an upside potential in PCS's profitability (for example by increasing n. of franchised stores)
  5. Cumulative capex in 2003-06 period was USD15m vs. market cap of USD5-15m in 2005-06
  6. PCSC acquired its majority stake in 2000 for PHP3.4[(1)] per share (5.8x the 2005 minimum price)
- Although profitability was low in 2005 the company started to franchise an increasing share of its convenience stores, this led to an increase in profitability. Operating profit per store eventually reached USD22,000 in 2013 (in line with the market valuation per store in 2005!)
- PSC was controlled by President Chain Store, an experienced licensee of 7-Eleven in Taiwan
- Good long-term thinking leadership under Vicente T. Paterno, who held 10.3% stake in 2005

(1) This price has been adjusted for stock splits

A Few Examples of Multi-baggers Stocks

Case 3: AutoZone (USA)

A leading, well-run retailer with great capital allocation skills

- A 6% annual sales growth, combined with a reasonable entry price valuation and a high return on capital retail business model
- …can lead to outstanding long-term returns, especially if management has great capital allocation skills

AutoZone

The beginning and evolution over the years

- The beginning: AutoZone was set up in 1979 by J.R. Hyde (who retired in 1997), as a subsidiary of food wholesaler Malone & Hyde
  - Initial insight & strategy: J.R. Hyde wanted to concentrate on the auto parts retail company, since most competitors in that space were mom-and-pop operations, many of which were not well run. The company's strategy was centered around "offering high quality, low-cost parts to the car or truck owner who has to repair his own vehicle out of economic necessity"
  - Right culture: J.R. Hyde has been a director of Wal-Mart from 1977 until 1983. This probably had a significant impact in building AutoZone's culture and incentive systems.
    - According to Hyde, the company "made a religion out of putting the customer first" and sought to create "a culture of excellence"
- 1984-96: in 1984 KKR led the leveraged buy-out of Malone & Hyde (acquisition price of $700m, of which $550m of debt) and the subsequent carve-out of AutoZone, which was listed on the NYSE in 1991. KKR exited AutoZone's investment in 1996
  - During the 1980s AutoZone was one of the first players to introduce electronic management systems to reduce wait times for customers and ease the accounting burden on local stores
- 1997-2011: Eddie Lampert acquired a significant minority stake, becoming in 2001 the largest shareholder in AutoZone and helping select as new CEO Steve Odland, who increased return on capital also through a greater focus on working capital management. Furthermore the company started raising debt to pursue share-buybacks, generating significant value for shareholders

AutoZone

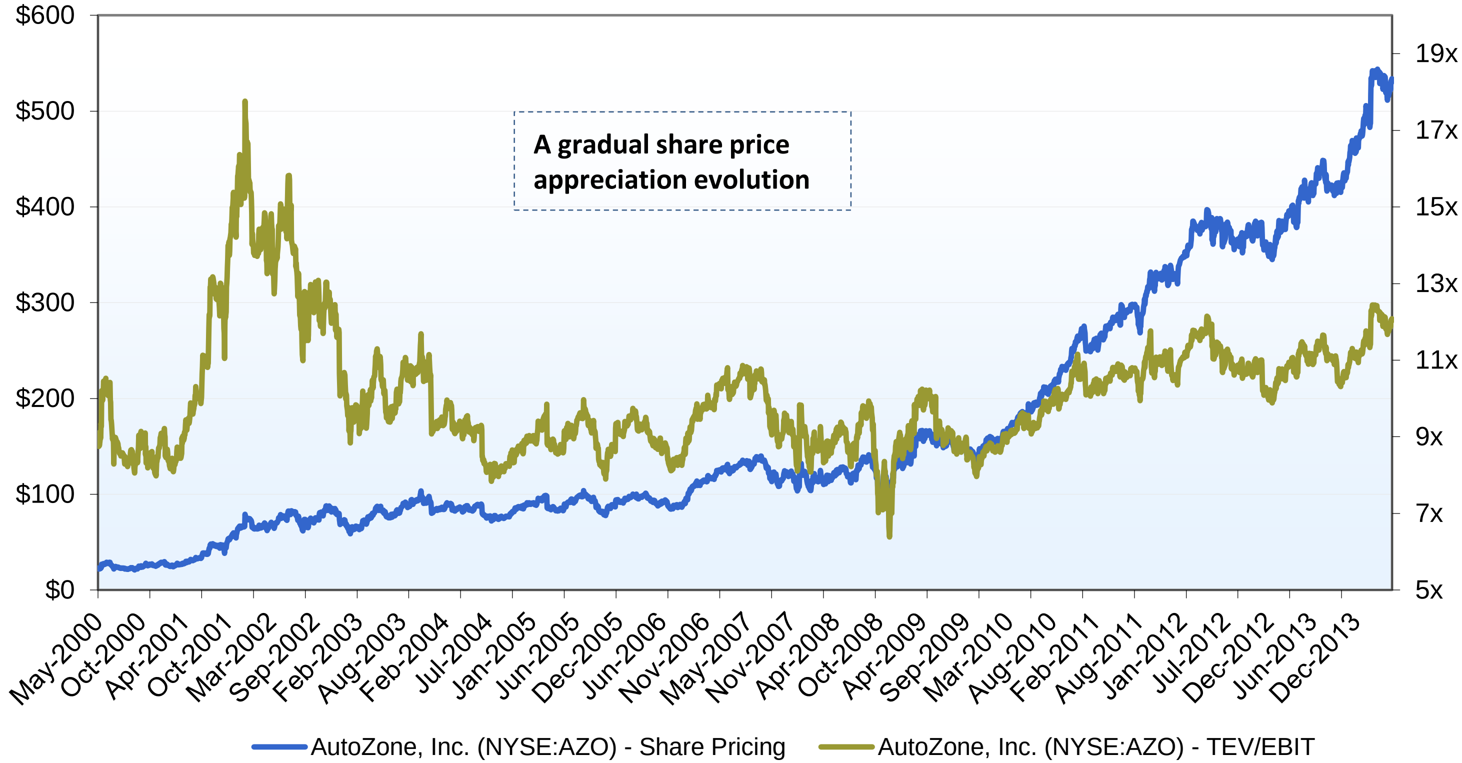
Assessing AutoZone's Management and Company Culture

From 1991 William Blair report

- "AutoZone's key success ingredient contributing to its competitive strengths is superior execution of a very focused merchandise strategy, which places a much greater emphasis on replacement parts than on accessories or chemicals. The company does not sell tires or operate service bays. We believe AutoZone executes the parts business as well as, if not better than, anyone in the business. This means having the appropriate inventory coverage, along with a good in-stock record and in-store service, well-trained store employees, and consistently low everyday prices. AutoZone's relatively small stores and heavy market saturation strategy result in both convenient locations and dominant market share positions in most of its markets."
- "While we attribute some of the company's superior productivity and returns to the application of advanced distribution and retail technology, there is another important factor at work here which we believe tends to separate the best companies from the pack: a very positive work environment which tends to produce highly motivated and involved employees. This corporate "culture," which we also see in companies such as Wal-Mart, Food Lion, Home Depot, and a handful of others, emanates from several factors including store management compensation which is tied directly to the financial performance of the store; opportunities for career advancement, resulting from growth and promotion from within; and, lastly, widespread ownership of stock and/or options throughout the organization. AutoZone's store managers and assistant managers each can earn an additional 20% of base salary based on store performance, and all store managers are eligible for stock options after their first year."

AutoZone – 24x Return from September 2000

Share Price Performance and Market Multiple Evolution Since September 2000



Data in USDm	Aug 00	Aug 01	Aug 02	Aug 03	Aug 04	Aug 05	Aug 06	Aug 07	Aug 08	Aug 09	Aug 10	Aug 11	Aug 12	Aug 13
Minimum Mkt Cap	2,808	2,384	4,020	5,562	6,141	5,792	5,850	6,228	6,547	4,925	6,561	8,943	11,880	12,400
Sales	4,483	4,818	5,326	5,457	5,637	5,711	5,948	6,170	6,523	6,817	7,363	8,073	8,604	9,148
Sales Growth (1)	9%	7%	11%	2%	3%	1%	4%	4%	6%	5%	8%	10%	7%	6%
EBIT Margin	11%	11%	14%	17%	18%	17%	17%	17%	17%	17%	18%	19%	19%	19%
EBIT Growth (1)	18%	6%	42%	19%	9%	-2%	4%	4%	7%	5%	12%	13%	9%	9%

Current Mkt Cap: USD17bn

(1) Sales and EBIT growth rates are calculated in local currency

MARTEK PARTNERS

AutoZone – 24x Return from September 2000

The Company Today

- The business: AutoZone Inc. ("AutoZone") is the leading US retailer of automotive replacement parts and accessories. Founded in 1979 by Joseph Reeves Hyde, today the company achieves >$9bn of sales and operates 4,836 stores in USA (in addition to 362 in Mexico and 3 in Brazil). The stores cater primarily to the DIY ("Do It Yourself") consumer, but the company has recently heightened its focus on serving the commercial customer (i.e. professional mechanics), 15-20% of total sales. AutoZone also sells to mechanics automotive diagnostic and repair information through its proprietary software package. AutoZone does not sell tires nor perform repair service
- Key shareholder in 1997-2011: activist investor Eddie Lampert acquired a significant minority stake in AutoZone and became a board director from 1999 until 2006
- 2013 key operating data
  - N. of stores: 5,201 (vs. 2,928 in 2000)
  - Current operating profit per store: $347,000 (vs. $182,000 in 2000)
- Last 3 years financial performance
  - Sales CAGR: 7%
  - Return on Capital Employed[(1)] (avg.): 45%
  - EBIT margin (avg.): 19%
- Current market data
  - Market cap: USD17bn
  - EV / LTM EBIT: 11.7x (up from 8.1x in 2000)

(1) Return on Equity has not been calculated since it is not meaningful, because book equity is negative due to the company's extensive share-buybacks over the years

AutoZone – 24x Return from September 2000

What we would have seen?

AutoZone vs. its Peers in early 2000s

	AutoZone	Advance Auto Parts	O'Reilly Automotive
2001 Market Share	12%	6%	3%
2001 Sales (USDm)	4,818	2,420	1,092
2001 Sales per Sq Foot	249	129	186
2001-1999 avg.			
ROE	20%	(0%)	13%
EBIT margin	11%	4%	10%

- AutoZone was perceived as the leading player with superior financial performance
- The table excludes 2 important peers:
  - CSK Auto: data is not available (it was acquired in 2008 by O'Reilly)
  - Pep Boys: it has a different business model (it offers repair services), which enjoys less attractive economics

What happened – see also next slide

- Both Advance Auto Parts and O'Reilly Automotive grew faster than AutoZone through higher investments and acquisitions
- All 3 players improved their profitability
- All 3 players generated significant value for their respective shareholders, showing impressive growth in both share price and earnings per share

AutoZone – 24x Return from September 2000

Comparing AutoZone to other US Auto Parts Retailers

Data in USDm	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
AutoZone															
Share Price ($)	22.5	46.2	72.4	91.8	74.1	94.5	90.3	121.3	137.2	147.3	209.8	307.0	361.6	419.9	25%
N. of Stores	2,928	3,089	3,107	3,268	3,483	3,673	3,871	4,056	4,240	4,417	4,627	4,813	5,006	5,201	5%
Sales	4,483	4,818	5,326	5,457	5,637	5,711	5,948	6,170	6,523	6,817	7,363	8,073	8,604	9,148	6%
Sales per Square Foot ($)	239	249	271	266	260	250	248	237	239	239	245	258	263	268	
Operating Margin	11%	11%	14%	17%	18%	17%	17%	17%	17%	17%	18%	19%	19%	19%	
Free Cash Flow	263	290	619	539	453	365	559	621	678	652	881	970	846	1,001	11%
Cash acquisitions	-	-	-	-	-	(11)	(3)	-	-	-	-	-	-	-	
N. of shares	133	113	104	95	85	79	75	69	63	55	48	43	39	36	(10%)
Diluted Earnings per Share ($)	2.0	1.5	4.0	5.3	6.6	7.2	7.5	8.5	10.0	11.7	15.0	19.5	23.5	27.8	22%
O'Reilly Automotive															
Share Price ($)	7.6	15.6	14.9	19.2	19.7	27.6	29.7	35.5	29.1	38.3	47.3	64.9	85.0	122.7	24%
N. of Stores	672	875	981	1,109	1,249	1,470	1,640	1,830	3,285	3,421	3,570	3,740	3,976	4,166	15%
Sales	890	1,092	1,312	1,512	1,721	2,045	2,283	2,522	3,577	4,847	5,398	5,789	6,182	6,649	17%
Sales per Square Foot ($)	198	186	205	206	207	209	207	203	154	200	213	218	216	221	
Operating Margin	10%	10%	11%	11%	11%	12%	12%	12%	9%	11%	14%	15%	16%	17%	
Free Cash Flow	(76)	(18)	2	32	53	1	(43)	17	(43)	(130)	338	791	951	512	n.m.
As % of Sales	*(9%)*	*(2%)*	*0%*	*2%*	*3%*	*0%*	*(2%)*	*1%*	*(1%)*	*(3%)*	*6%*	*14%*	*15%*	*8%*	
Cash acquisitions	-	(21)	-	-	-	(63)	-	-	(34)	-	-	-	-	-	
N. of shares	102	104	106	108	110	112	113	115	125	136	139	135	121	109	1%
Diluted Earnings per Share ($)	0.8	0.9	1.1	1.5	1.6	1.7	1.5	2.2	3.0	3.7	4.8	6.0	6.3	7.1	19%
Advance Auto Parts															
Share Price ($)	-	-	17.4	24.9	24.7	40.6	30.1	35.6	43.0	42.3	54.5	60.7	71.1	80.1	15%
N. of Stores	1,617	1,729	2,484	2,435	2,539	2,652	2,872	3,082	3,261	3,368	3,420	3,563	3,662	3,794	7%
Sales	2,288	2,420	3,204	3,494	3,770	4,265	4,617	4,844	5,142	5,413	5,925	6,170	6,205	6,494	8%
Sales per Square Foot ($)	172	129	177	185	191	201	203	202	208	217	228	231	223	219	
Operating Margin	4%	5%	7%	9%	9%	10%	9%	9%	9%	8%	10%	11%	11%	11%	
Free Cash Flow	33	40	145	255	81	105	75	200	294	507	467	561	414	349	20%
As % of Sales	*1%*	*2%*	*5%*	*7%*	*2%*	*2%*	*2%*	*4%*	*6%*	*9%*	*8%*	*9%*	*7%*	*5%*	
Cash acquisitions	-	(390)	(13)	-	-	(99)	(13)	-	-	-	-	(23)	(8)	(186)	
N. of shares	85	86	105	109	111	108	106	104	95	94	86	76	73	73	(1%)
Diluted Earnings per Share ($)	19.6	11.4	65.0	124.9	188.0	234.7	231.3	238.3	238.0	270.4	346.1	394.7	387.7	391.8	26%

Each player created significant value for its shareholders

(1) In comparing financials please note that AutoZone year end is at the end of August, whereas O'Reilly Automotive and Advance Auto Parts year end is at the end of December

AutoZone – 24x Return from September 2000

Company's Performance: Selected Data

Data in USDm, unless otherwise indicated	Aug 00	Aug 01	Aug 02	Aug 03	Aug 04	Aug 05	Aug 06	Aug 07	Aug 08	Aug 09	Aug 10	Aug 11	Aug 12	Aug 13	CAGR
AutoZone - Price Range during the Year															
High Price per Share (USD)	32.3	48.3	83.0	91.8	103.5	103.8	101.1	140.1	139.0	166.8	214.7	308.5	397.1	448.6	
Low Price per Share (USD)	21.1	21.1	38.5	58.6	72.3	73.8	77.8	90.1	103.4	89.1	135.3	209.8	307.0	345.0	
- Implied Market Cap	2,772	2,693	4,310	5,800	6,007	6,132	5,958	6,696	6,563	5,165	6,748	9,862	12,511	12,534	
- Free Cash Flow / Implied Market Cap	9%	11%	14%	9%	8%	6%	9%	9%	10%	13%	13%	10%	7%	8%	
High Price / Low Price	2x	2x	2x	2x	1x	1x	1x	2x	1x	2x	2x	1x	1x	1x	
AutoZone - Key Operating Metrics															
N. of Stores	2,928	3,089	3,107	3,268	3,483	3,673	3,871	4,056	4,240	4,417	4,627	4,813	5,006	5,201	5%
Total Store Square Footage (m)	19	19	20	21	22	23	25	26	27	29	30	31	33	34	5%
N. of Employees (000s)	43	45	44	48	48	52	53	55	57	60	63	65	70	71	4%
Avg. Sales per Store ($ 000s)	1,590	1,602	1,719	1,712	1,670	1,596	1,577	1,557	1,572	1,575	1,628	1,710	1,752	1,792	1%
Avg. Sales per Square Foot ($)	236	240	258	264	259	244	241	237	239	239	245	258	263	268	1%
Operating Profit per Store ($ 000s)	182	181	249	288	296	273	268	266	271	272	292	317	332	347	5%
Gross Margin	42%	42%	45%	46%	49%	49%	49%	50%	50%	50%	50%	51%	52%	52%	
Net Working Capital As % of Sales	3%	1%	(2%)	(3%)	(2%)	0%	(1%)	(2%)	(2%)	(3%)	(7%)	(9%)	(8%)	(9%)	
Sales / Net Invested Capital	2.0x	2.3x	2.8x	3.0x	2.9x	2.7x	2.7x	2.7x	2.8x	3.0x	3.4x	3.9x	4.0x	3.9x	
Operating Profit / Net Invested Capital	23%	26%	41%	50%	51%	46%	46%	47%	49%	52%	62%	72%	77%	75%	

Key Highlights

- While the company achieved a relatively steady 5% growth in terms of number of stores and retail space (combined with flat sales per square foot), return on capital (measured as operating profit / net invested capital) nearly tripled since 2000 thanks to:
  - An increase in gross margin from 42% to 52%, which was also driven by an rise in commercial business vs. DIY (Do It Yourself, i.e. retail business). Since commercial business shares fixed costs with DIY, this has driven up profitability
  - An impressive focus on working capital which has gone from a positive 3% of sales in 2000 to a negative 9% in 2014

AutoZone – 24x Return from September 2000

Company's Performance: Selected Data

Data in USDm, unless otherwise indicated	Aug 00	Aug 01	Aug 02	Aug 03	Aug 04	Aug 05	Aug 06	Aug 07	Aug 08	Aug 09	Aug 10	Aug 11	Aug 12	Aug 13	CAGR
AutoZone - Price Range during the Year															
High Price per Share (USD)	32.3	48.3	83.0	91.8	103.5	103.8	101.1	140.1	139.0	166.8	214.7	308.5	397.1	448.6	
Low Price per Share (USD)	21.1	21.1	38.5	58.6	72.3	73.8	77.8	90.1	103.4	89.1	135.3	209.8	307.0	345.0	
- Implied Market Cap	2,772	2,693	4,310	5,800	6,007	6,132	5,958	6,696	6,563	5,165	6,748	9,862	12,511	12,534	
- Free Cash Flow / Implied Market Cap	9%	11%	14%	9%	8%	6%	9%	9%	10%	13%	13%	10%	7%	8%	
High Price / Low Price	2x	2x	2x	2x	1x	1x	1x	2x	1x	2x	2x	1x	1x	1x	
AutoZone - Key Financial Metrics															
Sales	4,483	4,818	5,326	5,457	5,637	5,711	5,948	6,170	6,523	6,817	7,363	8,073	8,604	9,148	*6%*
Growth	*9%*	*7%*	*11%*	*2%*	*3%*	*1%*	*4%*	*4%*	*6%*	*5%*	*8%*	*10%*	*7%*	*6%*	
Same Store Growth	*5%*	*4%*	*9%*	*3%*	*0%*	*(2%)*	*0%*	*0%*	*0%*	*4%*	*5%*	*6%*	*4%*	*0%*	
Operating Profit	512	545	771	918	999	976	1,010	1,055	1,124	1,176	1,319	1,495	1,629	1,772	*10%*
As % of Sales	*11%*	*11%*	*14%*	*17%*	*18%*	*17%*	*17%*	*17%*	*17%*	*17%*	*18%*	*19%*	*19%*	*19%*	
Free Cash Flow	263	290	619	539	453	365	559	621	678	652	881	970	846	1,001	*11%*
As % of Sales	*6%*	*6%*	*12%*	*10%*	*8%*	*6%*	*9%*	*10%*	*10%*	*10%*	*12%*	*12%*	*10%*	*11%*	
Capital Increase / (Share-Buybacks)	(634)	(318)	(643)	(846)	(815)	(362)	(540)	(703)	(822)	(1,260)	(1,071)	(1,411)	(1,288)	(1,290)	
% of Shares Repurchased	11%	15%	7%	9%	10%	8%	4%	8%	8%	13%	12%	12%	9%	7%	
N. of Shares Outstanding	133	113	104	95	85	79	75	69	63	55	48	43	39	36	*(10%)*
EPS	2.0	1.5	4.0	5.3	6.6	7.2	7.5	8.5	10.0	11.7	15.0	19.5	23.5	27.8	*22%*
Shareholders Equity	992	866	689	374	171	391	470	403	230	(433)	(739)	(1,254)	(1,548)	(1,687)	
Net Debt / (Net Cash)	1,243	1,218	1,188	1,454	1,772	1,747	1,711	1,847	2,072	2,689	2,882	3,329	3,672	4,061	
Invested Capital	2,235	2,084	1,877	1,828	1,944	2,138	2,181	2,250	2,301	2,256	2,143	2,075	2,124	2,373	*0%*

Key Highlights

- In 2000-14 sales grew by "only" 6% per annum, but earning per shares grew by an impressive 22%. This was driven by:
  - An increase in operating profit margin from 11% to 19%
  - A 73% reduction in the number of shares outstanding, thanks to continuous share-buybacks (on average 10% share reduction each year). Share-buybacks were relatively attractive since the share price of the company was never very expensive (see Free Cash Flow / Market cap at the low price of each year). The company does not pay dividends

AutoZone – 24x Return from September 2000

How most investors viewed AutoZone in 2000

- A boring, slow-growth retailer, although generally considered a very well run company

What investors should have focused on

- Despite the AutoZone's ~6% sales growth achieved in the 2000-14 period (in line with research analysts expectations), the company ultimately achieved a 27% return p.a., driven by:
  - The "inevitable" share increase of organized retailers vs. mom-and pops players in the auto parts segment – interestingly this has been true for a wide range of retail business models and across different geographic areas
  - AutoZone's unique customer-first culture, which was also reflected in its incentive system
  - The rise in operating margins from 11% to 19%, thanks to ongoing focus on costs management and higher share of more profitable commercial sales – not easy to predict…
  - Management's relentless focus on taking advantage of the company's relatively low price to pursue value enhancing share-buybacks – on average AutoZone reduced its shares outstanding by 10% each year
- Interestingly even if one did not choose AutoZone, the leading player in US auto parts retailing, but instead selected other similar players, returns from minimum price level would have been very attractive:
  - O'Reilly Automotive: 31x return since August 2000 (even better than AutoZone!)
  - Advanced Auto Parts: 9x return since February 2003

Key Takeaways

On Multibagger Stocks

1. <u>There is no magic formula to find long term multi-baggers</u>. Every case is different with multiple different factors leading to extra returns, although <u>the quality of management remains key</u>. Best thing is to be curious, humble and read a lot…
2. <u>An investment thesis should be relatively simple</u>. Buffett did not use overly complex excel models to invest in well know companies like Coca-Cola, American Express and Wells Fargo, but he did read carefully their annual reports (>90% of investors do not)
   - Do not use your intelligence to fool yourself into an overly complex investment
3. <u>A low entry price vs. the company's long term profit potential is critical</u> (ultimately multi-baggers can be viewed as cheap long term options), but looking at market multiples and current profitability can sometimes be misleading. It is important to assess the <u>degree of predictability</u> of the long term revenue potential and profitability of the business and quality of the management
   - This is important also in deciding whether to hold on to the stock year after year
4. <u>Be contrarian, but know what you are buying</u>. It is important to go against the crowd, but do your own homework to identify critical data and reach a rational decision
5. <u>Small is beautiful</u>, 68% of multi-baggers in the selected sample were trading below USD300m of market cap at their low point – for many established investment funds these opportunities are simply inaccessible and this is why they are overlooked (and mispriced by the market)
6. <u>Patience is critical</u> – "The big money is not in the buying and selling… but in the waiting" (C. Munger)

Key Takeaways

On the importance of incentives and interest alignment with management and main shareholder

1. <u>It is critical to understand the quality and the alignment of interests of management (and the main shareholder) with your interests, focusing not on what they say but on what they did in the past and their current incentives</u>. These factors are very often completely ignored by investors
   - For example, think about an investment fund in which you have invested personally and ask yourself if, at the time of the investment, you knew: (i) the remuneration system of the investment manager ; (ii) if the investment manager was personally invested in the fund; and (iii) if the fund performance fee was subject to the so-called "high water mark“ clause, which implies that no performance fee is paid to the manager if the fund value falls below the previous maximum level

On the concept of risk and volatility

1. <u>Risk of permanent loss of capital is complex and not measurable with simple mathematical metrics</u> (such as Value at Risk). Ultimately risk assessment requires judgment, experience and a lot of work/reading
2. <u>Paying a low price is the key factor in reducing risk</u>
3. <u>Volatility is the friend of the rational long term investor</u>. When stocks are very cheap (and hated) they are often also very volatile - in times of distress in fact price volatility is a useful measure of market participants’ uncertainty/fear, not the value of the underlying business. Interestingly Warren Buffett’s purchase in Washington Post in 1973 was down ~20% in the first 2 years after the initial purchase and then over the years increased by >100x

Appendices

1. List of 100 Multi-Bagger Stocks
2. The Disruption of Fairfax Media
3. Further Reading

1. List of 100 Multi-Bagger Stocks

	Company	Country	Sector	Current Mkt Cap (USDm)	P / LTM BV	EV / LTM SALES	EV / LTM EBIT	Return from Minimum Price in last 15 years	Date of Minimum Price
				Market Data as of April 2014					
1.	Telecom Argentina S.A.	Argentina	Diversified Telecommunication	**4,480**	3.0x	1.1x	6.3x	**32x**	2/7/02
2.	REA Group Limited	Australia	Media	**5,532**	16.7x	14.5x	32.3x	**1,616x**	5/9/01
3.	Square Pharmaceuticals Limited	Bangladesh	Pharmaceuticals	**1,736**	5.3x	5.9x	20.3x	**48x**	1/10/99
4.	British American Tobacco Bangladesh	Bangladesh	Tobacco	**1,949**	18.9x	4.9x	18.3x	**36x**	30/5/06
5.	Itaú Unibanco Holding S.A.	Brazil	Banks	**75,855**	2.1x	N.M.	N.M.	**16x**	14/10/02
6.	CCR SA	Brazil	Transportation Infrastructure	**13,962**	9.0x	6.3x	13.9x	**91x**	25/10/02
7.	Tencent Holdings Ltd.	China	Internet Software and Services	**125,176**	13.1x	12.1x	41.9x	**157x**	26/7/04
8.	Tsingtao Brewery Company Limited	China	Beverages	**9,357**	4.3x	1.8x	26.6x	**70x**	17/4/00
9.	Hengan International Group Company	China	Personal Products	**13,277**	6.2x	4.9x	20.3x	**56x**	13/3/01
10.	Tingyi Cayman Islands Holding Corp.	China	Food Products	**16,241**	5.6x	1.6x	24.5x	**53x**	29/2/00
11.	Kweichow Moutai Co., Ltd.	China	Beverages	**29,094**	4.2x	5.1x	7.4x	**29x**	23/9/03
12.	Ctrip.com International Ltd.	China	Internet and Catalog Retail	**7,408**	5.2x	7.6x	45.5x	**19x**	10/5/04
13.	51job Inc.	China	Professional Services	**2,072**	3.8x	5.8x	19.2x	**12x**	17/3/09
14.	Novo Nordisk A/S	Denmark	Pharmaceuticals	**109,186**	14.5x	6.9x	18.3x	**22x**	19/7/99
15.	Nemetschek AG	Germany	Software	**786**	4.9x	2.8x	14.6x	**75x**	26/6/02
16.	Fuchs Petrolub SE	Germany	Chemicals	**6,552**	5.8x	2.5x	14.5x	**64x**	3/3/00
17.	ProSiebenSat.1 Media AG	Germany	Media	**8,928**	11.3x	3.1x	9.2x	**36x**	10/3/09
18.	Sto SE & Co. KGaA	Germany	Construction Materials	**1,295**	0.0x	0.7x	9.4x	**20x**	3/4/03
19.	PULSION Medical Systems SE	Germany	Healthcare Equipment and Supplies	**206**	8.6x	4.1x	13.6x	**18x**	26/11/08
20.	Hutchison China MediTech Ltd.	Hong Kong	Pharmaceuticals	**693**	7.7x	15.5x	72.2x	**26x**	24/12/08
21.	Symphony Limited	India	Household Durables	**416**	11.3x	6.3x	31.5x	**1,636x**	5/11/03
22.	TTK Prestige Ltd.	India	Household Durables	**591**	6.4x	2.7x	20.9x	**363x**	31/3/03
23.	Balkrishna Industries Ltd.	India	Auto Components	**791**	3.3x	2.0x	11.6x	**328x**	22/3/01
24.	Titan Company Limited	India	Textiles, Apparel and Luxury Goods	**3,873**	11.8x	2.2x	23.3x	**153x**	30/6/02
25.	Blue Dart Express Ltd.	India	Air Freight and Logistics	**1,379**	12.6x	4.6x	40.7x	**112x**	16/7/99

MARTEK PARTNERS

Source: Capital IQ
Note: Current prices as of 14th April 2014

1. List of 100 Multi-Bagger Stocks

	Company	Country	Sector	Market Data as of April 2014 Current Mkt Cap (USDm)	P / LTM BV	EV / LTM SALES	EV / LTM EBIT	Return from Minimum Price in last 15 years	Date of Minimum Price
26.	Hawkins Cookers Limited	India	Household Durables	**191**	15.7x	2.5x	20.8x	**110x**	17/5/04
27.	CRISIL Limited	India	Diversified Financial Services	**1,435**	12.8x	7.4x	25.4x	**98x**	25/9/01
28.	United Breweries Limited	India	Beverages	**3,590**	15.0x	5.8x	71.2x	**92x**	28/3/03
29.	Emami Limited	India	Personal Products	**1,754**	12.2x	5.6x	24.9x	**81x**	17/4/02
30.	Godrej Consumer Products Limited	India	Personal Products	**4,892**	8.4x	4.1x	29.4x	**73x**	31/12/01
31.	Mahindra & Mahindra Ltd.	India	Automobiles	**9,866**	3.0x	1.3x	11.8x	**63x**	31/12/01
32.	United Spirits Limited	India	Beverages	**5,964**	0.0x	4.1x	59.0x	**61x**	26/3/03
33.	Sun Pharmaceutical Industries Limited	India	Pharmaceuticals	**21,597**	8.0x	8.4x	20.0x	**57x**	19/6/00
34.	Marico Limited	India	Personal Products	**2,277**	10.1x	3.2x	19.9x	**37x**	1/1/02
35.	Pidilite Industries Limited	India	Chemicals	**2,785**	8.6x	4.0x	26.2x	**34x**	21/9/01
36.	Bata India Ltd.	India	Textiles, Apparel and Luxury Goods	**1,144**	8.2x	3.2x	25.2x	**32x**	31/3/03
37.	Asian Paints Limited	India	Chemicals	**8,635**	13.3x	4.3x	31.0x	**29x**	15/1/01
38.	Eicher Motors Ltd.	India	Machinery	**2,746**	8.0x	2.4x	27.5x	**25x**	18/10/08
39.	eClerx Services Limited	India	IT Services	**616**	6.2x	4.3x	11.6x	**20x**	27/10/08
40.	Page Industries Limited	India	Textiles, Apparel and Luxury Goods	**1,044**	24.2x	5.8x	28.9x	**17x**	22/3/07
41.	GlaxoSmithKline Consumer Healthcare	India	Food Products	**3,087**	10.4x	4.7x	28.2x	**17x**	27/3/03
42.	Cummins India Limited	India	Machinery	**2,630**	5.9x	3.6x	22.4x	**14x**	17/10/01
43.	Hero MotoCorp Limited	India	Automobiles	**7,203**	7.2x	1.6x	16.4x	**14x**	24/4/01
44.	ITC Limited	India	Tobacco	**45,427**	11.7x	8.4x	25.5x	**14x**	23/5/02
45.	Oracle Financial Services Software Limited	India	Software	**4,471**	0.0x	5.8x	16.2x	**11x**	26/7/02
46.	Nestle India Ltd.	India	Food Products	**7,735**	19.7x	5.1x	27.2x	**11x**	21/4/00
47.	Bajaj Auto Limited	India	Automobiles	**9,634**	7.2x	2.7x	13.0x	**11x**	2/12/08
48.	PT United Tractors Tbk	Indonesia	Machinery	**6,913**	2.4x	1.5x	11.4x	**359x**	24/4/01
49.	PT Fast Food Indonesia Tbk	Indonesia	Hotels, Restaurants and Leisure	**424**	4.4x	1.1x	21.7x	**132x**	5/7/99
50.	PT Unilever Indonesia Tbk	Indonesia	Household Products	**20,509**	55.1x	7.7x	32.8x	**91x**	12/8/99

MARTEK PARTNERS

Source: Capital IQ
Note: Current prices as of 14th April 2014

1. List of 100 Multi-Bagger Stocks

	Company	Country	Sector	Current Mkt Cap (USDm)	P / LTM BV	EV / LTM SALES	EV / LTM EBIT	Return from Minimum Price in last 15 years	Date of Minimum Price
				Market Data as of April 2014					
51.	PT Multi Bintang Indonesia Tbk	Indonesia	Beverages	**2,026**	23.5x	8.1x	18.5x	**49x**	31/12/01
52.	PT Semen Indonesia (Persero) Tbk	Indonesia	Construction Materials	**8,257**	4.5x	3.9x	13.5x	**41x**	27/4/01
53.	Indocement Tunggal Prakarsa tbk PT	Indonesia	Construction Materials	**7,385**	3.7x	3.9x	11.9x	**32x**	15/10/02
54.	Seagate Technology Public Limited	Ireland	Technology Hardware, Storage and	**18,022**	7.2x	1.4x	10.3x	**18x**	6/3/09
55.	East African Breweries Limited	Kenya	Beverages	**2,407**	25.8x	4.0x	16.0x	**28x**	13/6/00
56.	Grupo Aeroportuario del Sureste, SAB de CV	Mexico	Transportation Infrastructure	**3,748**	3.0x	9.3x	18.5x	**12x**	6/3/03
57.	Nestle Nigeria PLC	Nigeria	Food Products	**5,827**	0.0x	7.2x	34.2x	**50x**	12/6/00
58.	GlaxoSmithKline Consumer Nigeria Plc	Nigeria	Pharmaceuticals	**415**	21.5x	2.2x	15.2x	**37x**	18/3/02
59.	Unilever Nigeria Plc	Nigeria	Household Products	**1,050**	17.9x	2.9x	21.8x	**14x**	2/5/00
60.	Bata Pakistan Ltd.	Pakistan	Textiles, Apparel and Luxury Goods	**256**	5.5x	1.8x	13.7x	**114x**	25/9/01
61.	Unilever Pakistan Foods Limited	Pakistan	Food Products	**557**	118.9x	7.7x	36.9x	**64x**	6/7/99
62.	Colgate-Palmolive (Pakistan) Limited	Pakistan	Personal Products	**812**	11.4x	3.5x	32.5x	**63x**	5/6/01
63.	Nestle Pakistan Limited	Pakistan	Food Products	**3,800**	30.8x	4.5x	35.6x	**48x**	27/9/01
64.	Indus Motor Company Limited	Pakistan	Automobiles	**392**	2.1x	0.4x	6.4x	**33x**	24/9/01
65.	Millat Tractors Limited	Pakistan	Machinery	**215**	3.9x	0.9x	6.5x	**30x**	6/7/99
66.	Philippine Seven Corp.	Philippines	Food and Staples Retailing	**1,000**	19.2x	2.9x	44.2x	**204x**	15/6/05
67.	Manila Electric Co.	Philippines	Electric Utilities	**7,166**	4.2x	1.0x	8.3x	**62x**	30/5/03
68.	Lafarge Republic, Inc.	Philippines	Construction Materials	**1,341**	2.9x	2.4x	10.5x	**58x**	7/6/04
69.	Holcim Philippines, Inc.	Philippines	Construction Materials	**1,973**	4.1x	3.0x	14.1x	**41x**	5/2/03
70.	The Philippine Stock Exchange, Inc.	Philippines	Diversified Financial Services	**489**	9.4x	15.6x	24.7x	**18x**	26/7/04
71.	Globaltrans Investment Plc	Russia	Road and Rail	**1,805**	1.3x	1.2x	6.4x	**12x**	27/2/09
72.	Jardine Cycle & Carriage Ltd.	Singapore	Distributors	**13,452**	3.1x	1.1x	8.6x	**26x**	16/11/01
73.	Shoprite Holdings Ltd.	South Africa	Food and Staples Retailing	**8,596**	5.7x	0.9x	15.7x	**35x**	20/12/01
74.	Massmart Holdings Limited	South Africa	Food and Staples Retailing	**2,730**	5.5x	0.4x	13.6x	**14x**	18/3/02
75.	Amorepacific Group	South Korea	Personal Products	**3,655**	1.8x	1.2x	10.3x	**36x**	21/2/00

Source: Capital IQ
Note: Current prices as of 14th April 2014

1. List of 100 Multi-Bagger Stocks

	Company	Country	Sector	Market Data as of April 2014: Current Mkt Cap (USDm)	P / LTM BV	EV / LTM SALES	EV / LTM EBIT	Return from Minimum Price in last 15 years	Date of Minimum Price
76.	LG Household and Health Care, Ltd.	South Korea	Household Products	**6,379**	4.7x	1.8x	15.4x	**32x**	27/4/01
77.	Ceylon Tobacco Company PLC	Sri Lanka	Tobacco	**1,506**	45.6x	8.7x	13.0x	**35x**	6/9/01
78.	Swedish Match AB	Sweden	Tobacco	**6,605**	NM	4.0x	13.8x	**12x**	3/5/00
79.	Sika AG	Switzerland	Chemicals	**9,944**	4.1x	1.7x	17.0x	**22x**	3/10/01
80.	Sonova Holding AG	Switzerland	Healthcare Equipment and Supplies	**9,474**	5.2x	4.4x	21.6x	**20x**	13/3/03
81.	Siam Makro Public Company Limited	Thailand	Food and Staples Retailing	**4,832**	14.2x	1.2x	28.7x	**28x**	25/4/03
82.	The Siam Cement Public Company Limited	Thailand	Construction Materials	**15,834**	3.2x	1.6x	16.5x	**24x**	16/10/00
83.	CP ALL Public Company Limited	Thailand	Food and Staples Retailing	**12,243**	13.7x	2.0x	36.6x	**23x**	24/11/04
84.	Turk Traktor ve Ziraat Makineleri Anonim	Turkey	Machinery	**1,519**	4.3x	1.5x	10.0x	**14x**	9/3/09
85.	BIM Birlesik Magazalar A.S.	Turkey	Food and Staples Retailing	**7,023**	14.9x	1.2x	29.4x	**14x**	18/8/05
86.	Rightmove plc	United Kingdom	Media	**3,807**	257.8x	16.2x	23.4x	**18x**	23/1/09
87.	Rotork plc	United Kingdom	Machinery	**3,923**	7.1x	3.9x	16.5x	**15x**	24/5/00
88.	The Priceline Group Inc.	United States	Internet and Catalog Retail	**60,861**	8.8x	8.2x	23.0x	**178x**	9/10/02
89.	Amazon.com Inc.	United States	Internet and Catalog Retail	**145,364**	14.9x	1.9x	206.3x	**53x**	28/9/01
90.	O'Reilly Automotive Inc.	United States	Specialty Retail	**15,215**	7.7x	2.5x	14.8x	**31x**	8/3/00
91.	Cummins Inc.	United States	Machinery	**26,343**	3.5x	1.5x	12.1x	**29x**	9/10/02
92.	AutoZone, Inc.	United States	Specialty Retail	**17,121**	NM	2.3x	11.7x	**24x**	20/9/00
93.	PriceSmart Inc.	United States	Food and Staples Retailing	**2,850**	5.6x	1.2x	21.2x	**19x**	26/5/04
94.	MasterCard Incorporated	United States	IT Services	**84,458**	11.4x	9.4x	17.0x	**16x**	18/7/06
95.	Monotype Imaging Holdings Inc.	United States	Software	**1,098**	3.8x	6.1x	20.1x	**13x**	2/3/09
96.	Yum! Brands, Inc.	United States	Hotels, Restaurants and Leisure	**33,336**	15.4x	2.7x	17.4x	**13x**	28/7/00
97.	AutoNation Inc.	United States	Specialty Retail	**6,350**	3.1x	0.6x	15.2x	**13x**	27/10/08
98.	Fastenal Company	United States	Trading Companies and Distributors	**14,956**	8.3x	4.4x	20.8x	**12x**	15/10/99
99.	Nike, Inc.	United States	Textiles, Apparel and Luxury Goods	**63,560**	5.7x	2.2x	16.3x	**11x**	25/2/00
100.	Google Inc.	United States	Internet Software and Services	**362,809**	4.2x	5.2x	22.1x	**11x**	3/9/04

Source: Capital IQ
Note: Current prices as of 14th April 2014

2. The Disruption of Fairfax Media

Key Considerations

- The next slide shows the gradual disruption of the traditional print classified's business model represented by Australian leading print media player, Fairfax Media, which lost ground to its Australian online competitors, represented by:
  - REA Group, the leading online real estate classified player
  - Seek, the leading online job recruiting classified player
  - Carsales.com, the leading online car sales classified player
- During the 2001-13 period Fairfax Media's share price declined by ~90%. Interestingly as the core print business experienced stagnant/declining sales and deteriorating pricing power due to the rise of the online classified business model, Fairfax Media's management pursued significant (and often quite expensive) acquisitions, which led to:
  1. A rise in the company's leverage (net debt / EBITDA reached 3.7x in 2007), right before the 2008-09 crisis…
  2. Substantial dilution for shareholders (incurred to pursue acquisitions as well as to reduce the excessive leverage) as the number of shares outstanding increased >3x from 2001 to 2013
- Looking at the financial performance of the 4 companies in retrospective provides also an interesting perspective on risk: in fact although on traditional valuation metrics (such as P / E) Fairfax Media appeared to be a cheaper (some would say "safer") investment vs. fast-growing online competitors, ultimately it ended up being a risky (and loss-making) bet
  - Of course these things look clearer in a rear-view mirror, but it is always important to be cautious when evaluating an investment of a traditional (and very profitable) business model under the threat of disruptive innovation

2. The Disruption of Fairfax Media

The disruption of Fairfax Media (traditional print classified player) in terms of market valuation and financial performance by online classified competitors

Data in USDm, Y/E 30 June	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fairfax Media													
Share Price (AUD)	4.1	3.3	2.9	3.7	4.3	3.8	4.7	2.9	1.2	1.3	1.0	0.6	0.5
Market Cap	1,510	1,369	1,421	2,249	3,028	2,614	5,903	4,238	2,315	2,619	2,473	1,336	1,066
Sales	673	670	817	1,233	1,427	1,416	1,797	2,792	2,098	2,151	2,592	2,211	1,841
Free Cash Flow	(31)	10	45	122	225	175	234	293	224	320	393	226	115
As % of Sales	-5%	1%	6%	10%	16%	12%	13%	10%	11%	15%	15%	10%	6%
Cash acquisitions	(1)	-	(630)	(46)	(18)	(503)	(494)	(572)	(53)	(8)	(29)	(15)	(57)
Capital increase / (Sharebuybacks + Div.)	(38)	89	176	(5)	(92)	139	(150)	(184)	339	(36)	(410)	(83)	(43)
N. of shares	731	735	756	886	919	932	1,082	1,617	1,833	2,352	2,352	2,352	2,352
Net Debt / EBITDA	2.3x	2.6x	4.2x	2.4x	1.5x	2.5x	3.7x	3.1x	3.4x	2.3x	2.5x	2.3x	0.5x
REA Group - Leading Australian online real estate classified player													
Share Price (AUD)	0.1	0.1	0.3	0.8	1.5	3.8	5.9	4.4	6.0	10.7	11.9	13.7	27.5
Market Cap	5	7	16	61	120	359	642	533	611	1,161	1,665	1,848	3,320
Sales	2	3	6	13	25	45	91	128	135	165	256	284	308
of which % of Austr. & New Zeland	*100%*	*100%*	*100%*	*100%*	*99%*	*90%*	*80%*	*91%*	*89%*	*92%*	*90%*	*89%*	*90%*
Free Cash Flow	(2)	(0)	0	2	4	7	15	12	22	48	78	95	127
As % of Sales	*(94%)*	*(5%)*	*8%*	*18%*	*16%*	*15%*	*17%*	*10%*	*16%*	*29%*	*30%*	*34%*	*41%*
Seek - Leading Australian online job recruiting classified player													
Share Price (AUD)	-	-	-	-	2.4	5.4	7.4	5.0	4.2	7.0	6.4	6.3	9.1
Market Cap	-	-	-	-	481	1,116	1,775	1,360	1,099	1,998	2,326	2,188	2,804
Sales	6	10	17	28	54	81	135	202	169	239	370	456	574
of which % of Australian job recr. Classif	*100%*	*100%*	*100%*	*100%*	*90%*	*88%*	*89%*	*90%*	*81%*	*61%*	*65%*	*56%*	*37%*
Free Cash Flow	(7)	0	3	10	17	29	46	65	51	64	107	136	144
As % of Sales	*(114%)*	*1%*	*19%*	*36%*	*32%*	*36%*	*34%*	*32%*	*30%*	*27%*	*29%*	*30%*	*25%*
Carsales.com - Leading Australian online car sales classified player													
Share Price (AUD)										4.8	4.7	6.0	9.4
Market Cap										937	1,178	1,435	2,039
Sales						21	40	69	77	102	164	189	197
of which % of Australian car sales classified						*100%*	*100%*	*86%*	*86%*	*87%*	*88%*	*87%*	*87%*
Free Cash Flow						6	11	17	25	42	64	70	82
As % of Sales						*30%*	*27%*	*24%*	*33%*	*41%*	*39%*	*37%*	*42%*

3. Further Reading

Interesting books on some of the topics discussed in this presentation

- *100 to 1 in the stock market: A distinguished security analyst tells how to make more of your investment opportunities* by T. W. Phelps
- *100 Baggers: Stocks That Return 100-to-1 and How To Find Them* by C. Mayer
- *The Halo Effect* by P. Rosenzweig
- *The Billion Dollar Mistake* by S. Weiss
- *Billion Dollar Lessons* by B. Carroll and C. Mui
- *The Black Swan* by N. Taleb
- *Killing Fairfax: Packer, Murdoch and the Ultimate Revenge* by P. Williams
- *The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business* by C. M. Christensen
- *How Asia Works: Success and Failure in the World's Most Dynamic Region* by J. Studwell