

ELEVATION CAPITAL RESEARCH ANNUAL

2015

DEAR INVESTORS,

IT IS WITH GREAT PLEASURE WE PRESENT THE ELEVATION CAPITAL RESEARCH ANNUAL

2015

Elevation Capital was founded on the philosophy of "Independent Thinking – Disciplined Investing".

INDEPENDENT THINKING [In-de-pend-ent Think-ing] *ində'pendənt THiNkiNG* verb

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying. We also believe that cash is sometimes the most attractive investment.

DISCIPLINED INVESTING [Dis-ci-plined In-vest-ing] *disciplinəd inves'ting* verb

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. Our investments are premised on the concept of "Margin of Safety" which we believe reduces risk.

We believe this research publication clearly emphasises our continued adherence to our founding philosophy. It provides our investors, and potential investors, with the ability to review and critique our investment ideas, which will now be presented on an annual basis in this format.

While it is important to be able to articulate our investment process and ideas clearly, it is also critical to ensure those ideas add value. With this in mind we have also published our "batting average"* from within the Elevation Capital Value Fund.

From Inception Date - 9 December 2008 to 31 December 2015 the portfolio data** is as follows:

Number of Exited Positions: 179

Profitable Positions in New Zealand Dollars: 147

Profitable Positions in Local Currency: 153

Batting Average in New Zealand Dollars: 82.1%*

Batting Average in Local Currency: 85.5%*

Since inception, our batting average has delivered gross investment gains of NZ\$ 5,918,305 versus gross investment losses of NZ\$ 1,156,974 on median funds under management of NZ\$ 12,114,404**.

We trust you find this publication useful and that it continues to highlight the rigor and thought processes behind how Elevation Capital invests on behalf of our clients.

Yours sincerely,



Christopher Swasbrook



Richard Milsom



John Tsai

* Batting average is defined as the overall percentage of investments that have delivered positive returns for the Elevation Capital Value Fund since inception.

** Based on Elevation Capital Management Limited data.

DISCLOSURE

This research publication was published in February 2016.

DISCLAIMER

This publication has been prepared by Elevation Capital Management Limited ("Elevation Capital") for distribution to clients of Elevation Capital in New Zealand and other jurisdictions to whom, under relevant law, this publication lawfully may be distributed. It may not be distributed in any other jurisdiction or to any other persons.

The information, investment views and recommendations in this publication are provided for general information purposes only. To the extent that any such information, views, and recommendations constitute advice, they do not take into account any person's particular financial situation or goals and, accordingly, do not constitute personalised financial advice under the Financial Advisers Act 2008, nor do they constitute advice of a legal, tax, accounting or other nature to any person. Elevation Capital recommends that recipients seek advice specific to their circumstances from their adviser before making any investment decision or taking any action.

NON-RELIANCE, NO WARRANTIES, NO LIABILITY

This publication does not, and does not attempt to, contain all material or relevant information about all companies/stocks referred to in this publication or other matters referred to in this publication. The publication is published in good faith and is based on publicly available information. Information and opinions contained in this publication reflect a judgment at the date of publication by Elevation Capital and are subject to change without notice. Elevation Capital is under no obligation to update or keep current any of the information in this publication.

No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information, assumptions, views, opinions, statements, data or conclusions contained, referred to, or reflected in, or supplied or communicated orally or in writing to any person in connection with, this publication (together, the "Information"), or as to the reasonableness of such Information. Nothing in this publication should be construed as a solicitation to buy or sell any security or other product, or to engage in or refrain from doing so or engaging in any other transaction.

To the maximum extent permitted by law, neither Elevation Capital nor any of Elevation Capital's directors, employees, shareholders, subsidiaries, agents, advisers or any other person shall have any liability to any person for any loss (including, without limitation, any liability arising from any fault or negligence on the part of Elevation Capital or any of Elevation Capital's directors, employees, shareholders, subsidiaries, agents, advisers or any other person) arising in respect of or in relation to this publication or any of the Information.

Certain Information used in this publication has been derived or obtained from filings made with the Securities and Exchange Commission ("SEC") or other regulatory authorities and from other third party sources. Elevation Capital has not sought or obtained consent from any third party to use any such Information. The use of any such Information should not be viewed as indicating the support of such third party for the views expressed in this publication by Elevation Capital or Elevation Capital's endorsement of such third party Information. No warranty is made that any Information, whether derived or obtained from filings made with the SEC, any other regulatory agency, from any third party or otherwise, is accurate. Past performance is not an indication of future results. No audit or review has been undertaken by an independent third party of this publication or the Information.

FORWARD-LOOKING STATEMENTS

This publication contains forward-looking statements. All statements contained in this publication that are not clearly historical in nature or that necessarily depend on future events are forward-looking, and the words "anticipate," "believe," "expect," "potential," "opportunity," "estimate," "plan," and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements are subject to various risks and uncertainties. Nothing in this publication is a promise or representation as to the future. Statements or assumptions in this publication as to future matters may prove to be incorrect. Neither Elevation Capital nor any of Elevation Capital's directors, employees, shareholders, subsidiaries, agents, advisers or any other person makes any representation or warranty as to the accuracy of such statements or assumptions. Circumstances may change and the contents of this publication may become outdated as a result. No audit or review has been undertaken by an independent third party of the assumptions, data, results, calculations and forecasts contained in or referred to in this publication.

CONCERNING INTELLECTUAL PROPERTY

All registered or unregistered service marks, trade marks and trade names referred to in this publication are the property of their respective owners, and Elevation Capital's use in this publication does not imply an affiliation with, or endorsement by, the owners of these service marks, trade marks and trade names.

CONCERNING ELEVATION CAPITAL

Elevation Capital is registered as a financial service provider in New Zealand under the Financial Service Providers (Registration and Disputes Resolution) Act 2008 (FSP# 9601). Christopher Swasbrook is also registered under that Act (FSP# 110649); however, he is not an authorised financial adviser for the purposes of the Financial Advisers Act 2008. Despite such registration, neither Elevation Capital nor Mr Swasbrook is providing any personalised financial advice to any person as a result of this publication.

Elevation Capital is the manager of the Elevation Capital Value Fund ("Fund"). A copy of the Investment Statement in respect of the Fund is available on request from:

Mail: PO Box 911145, Victoria Street West, Auckland 1142, New Zealand;

Email: info@elevationcapital.co.nz

Phone: +64 9 307 6741

At the date of this publication, Elevation Capital, its employees, the Funds and accounts managed by Elevation Capital and other persons associated with Elevation Capital may own (legally, beneficially or both) and/or have an interest (economic or otherwise) in securities referred to in this publication.

CONTENTS

COACH INC

DE LA RUE PLC

MOLSON COORS BREWING CO

MONDELÉZ INTERNATIONAL INC

PENTAL LIMITED

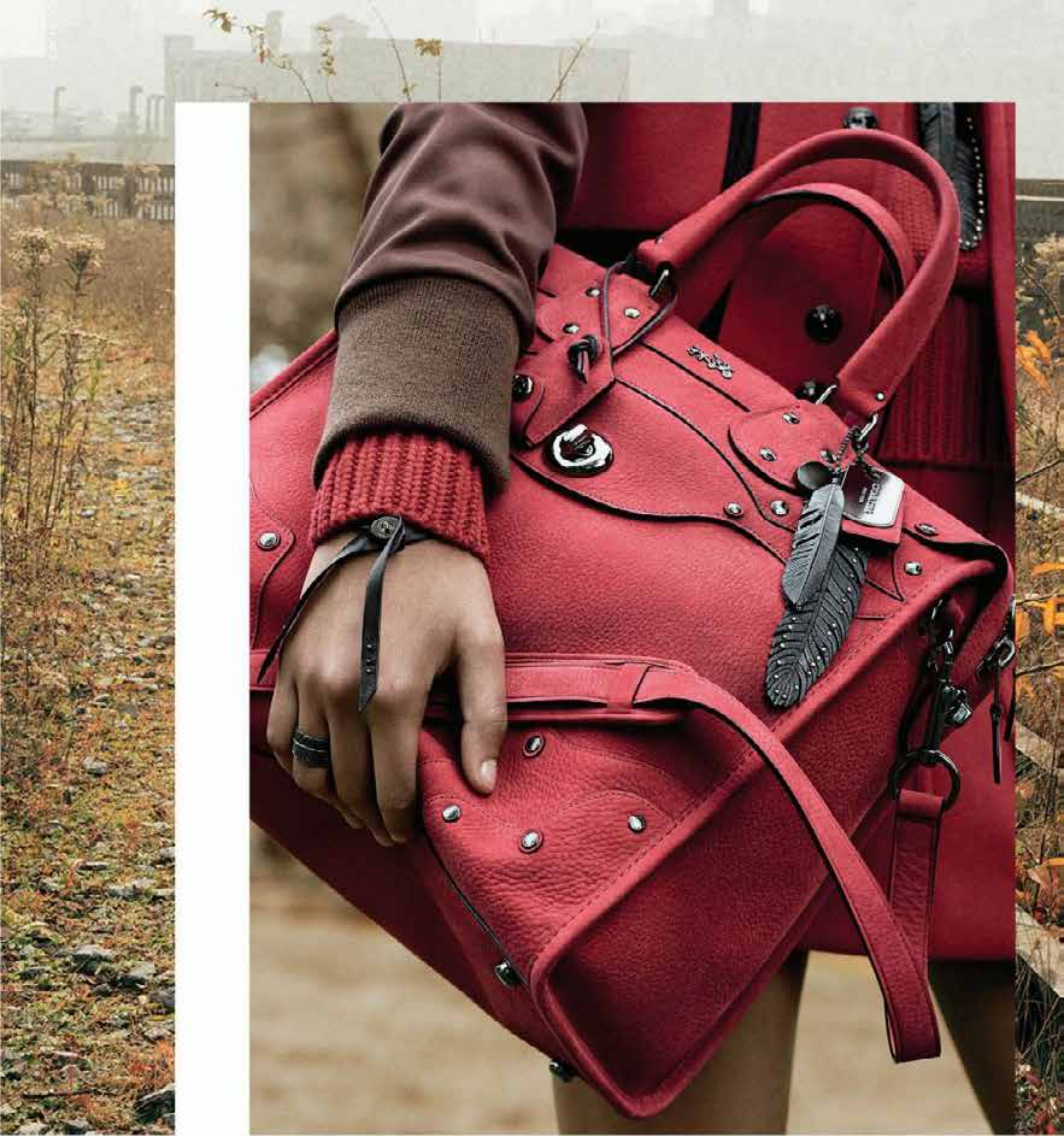
SKYLINE ENTERPRISES LIMITED

VIACOM INC

ELEVATION CAPITAL MANAGEMENT LIMITED

COACH INC [COH:US]

Research Presentation released in December 2015





COACH INC: THE ICONIC AMERICAN BRAND

- Founded in 1941, Coach has established itself as the iconic American brand that defines “accessible luxury” with an effortless New York style.

#2

ACCESSORIES BRAND
WORLDWIDE

965

DIRECTLY OPERATED
STORES

325

MILLION
CUSTOMER VISITS
ANNUALLY*

PRESENT IN

45

COUNTRIES
AROUND THE
WORLD

COACH INC: RICH HERITAGE AND A HISTORY OF INNOVATION

- 
- 1941 Coach was founded as a small family-run business (originally named 'Manhattan Leather Bags') in Manhattan and specialised in the manufacture of leather goods, mainly wallets.
 - 1946 Miles Cahn and his wife Lillian joined the Company.
 - 1950 The Cahns took over the running of the business. Miles improved the manufacturing techniques to increase the softness and strength of the leather, and Lillian suggested that Coach introduce women's leather bags to its offering to supplement the men's accessories.
 - 1961 Miles and Lillian Cahn took over Coach in a leveraged buyout, then hired Bonnie Cashin, a renown sportswear designer to work as the creative head for Coach, who revolutionised Coach's product design and introduced many design features such as the turnlock, a Coach hallmark.
 - 1985 The Cahns sold Coach to Sara Lee for a reported US\$ 30M. Coach was helped by its new owner to open many new boutiques in Macy's and other department stores across the United States in the following years.
 - 1996 Coach hired Reed Krakoff to modernise its product offerings.
 - 2013 Coach hired Stuart Vevers as the new Executive Creative Director, replacing Reed Krakoff.
 - 2015 Coach acquired Stuart Weitzman, a women's luxury footwear company for US\$ 574M in cash.

COACH INC: CURRENT BRAND PORTFOLIO



US\$ 4,149
MILLION

Net Annual Sales*

The Coach brand is one of the most recognised fine accessories brands in both North America and in targeted international markets. Coach has a rich heritage of pairing exceptional leathers and materials with innovative design.

Coach is available on five continents in over 1,000 directly-operated stores worldwide and many more in collaboration with its global wholesale and distributor partners.

The Coach brand is currently undergoing process of transforming itself from an accessories brand to a total lifestyle brand that will define “global modern luxury”.

STUART
WEITZMAN



US\$ 300
MILLION

Net Annual Sales*

Stuart Weitzman is a leading women's premium footwear brand in North America, with a strong growth opportunity in North America and also international markets. Its products (mostly footwear) are sold primarily through wholesale concepts as well as through retail concepts.

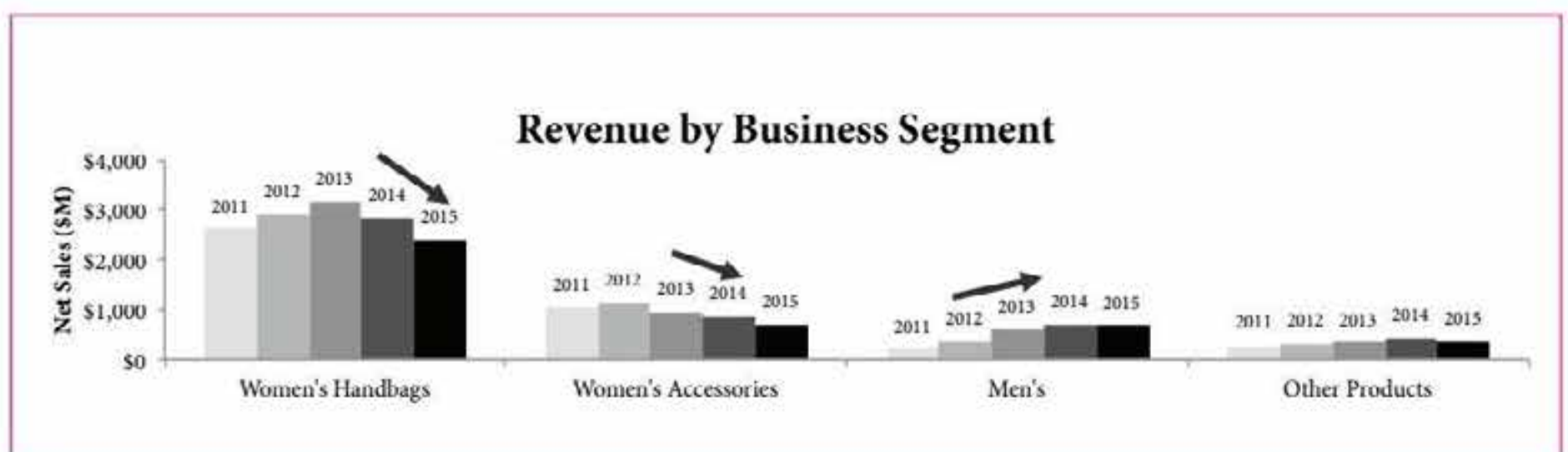
Stuart Weitzman is sold primarily through department stores in North America and international distributors, including approximately 600 wholesale locations, and within numerous independent third party distributors. Its products are also sold in freestanding flagship and retail stores, and e-commerce websites. As of June 27, 2015, Stuart Weitzman had 54 directly operated stores.

* FYI2015 ENDING 27 JUNE 2015

** 12-MONTH PERIOD ENDING 30 SEPTEMBER 2014

COACH INC: INCREASED COMPETITION IN CORE BUSINESS

- In recent years, Coach has faced an onslaught competition in its core business from competitors such as Michael Kors, Kate Spade and Tory Burch that are perceived by consumers as “contemporary and refreshing”.
- Coach had been slow in responding to new competition, to innovate its core products and refresh/define its brand image.
- However, Coach has been reasonably successful in its men’s line after launching its first men’s store in NYC in 2010. This business now accounts for 16% of sales (US\$ 680M in sales), and is currently projected to reach US\$ 1B in sales by 2018.

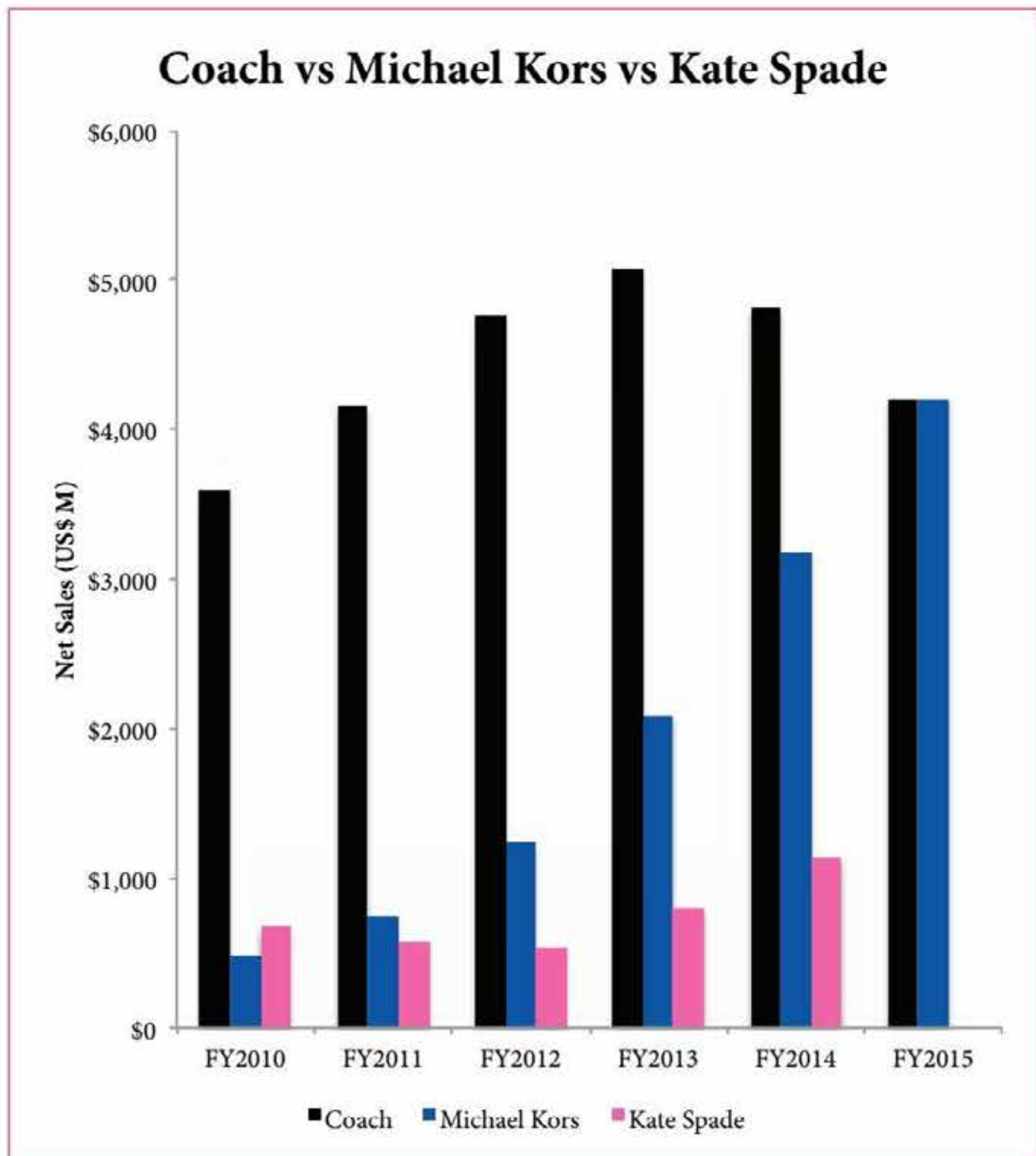


SOURCE: COACH INC FY2015 10-K REPORT

COACH INC: INCREASED COMPETITION IN CORE BUSINESS



MICHAEL KORS



SOURCE: COH.US/KORS.US/KATE.US 10-K REPORTS

COACH INC: UNSUSTAINABLE GROWTH STRATEGY BY PREVIOUS MANAGEMENT

- Coach logo bags and accessories flooded the market via the many stores/outlets and too many promotions/sales that commoditised its brand. The problem was compounded by large quantities of counterfeits in the market.
- The problem is being rectified by current management, with a multi-year strategic transformation plan that was announced in 2014 to rebuild/reposition the Coach brand.
- Coach also undertook its first-ever acquisition in early 2015 by acquiring Stuart Weitzman to again become a multi-brand company (previously the Reed Krakoff brand was its other brand) to improve its growth prospects.

ESTÉE LAUDER
and
COACH
EST. 1941
An exclusive collection

\$98
with any Estée Lauder purchase of \$50 or more.
The collection worth over \$300.

Brought To You By LivingInSingaporeToday.com
TANGS
BEAUTY HALL

COACH
FACTORY

NEW AND JUST
\$129

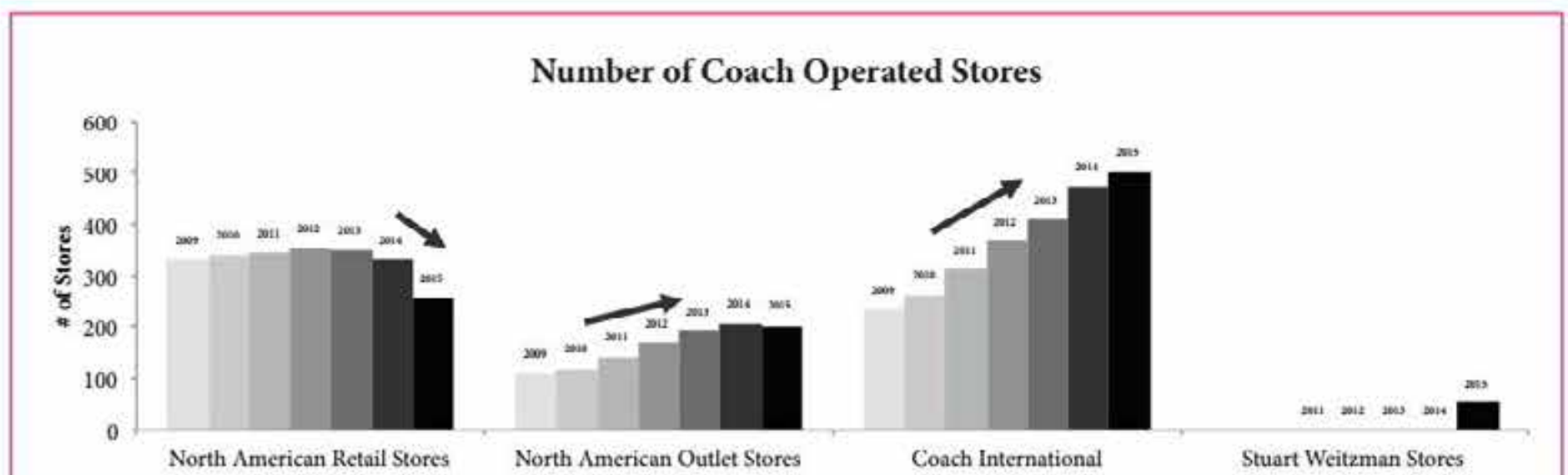
Visit your Coach Factory store tomorrow and treat yourself to this gorgeous new tote for the unheard of price of just \$129 (plus an extra 30% off), only while supplies last. Plus...

ENJOY AN ADDITIONAL 30% OFF

EVERYTHING ELSE IN THE STORE, NOW THROUGH MONDAY, JANUARY 2.

PRINT EMAIL

PORTABLE CHIC: THE GALLERY SCARF PRINT TOTE, NOW \$129 PLUS AN EXTRA 30% OFF.



SOURCE: COACH INC FY2015 10-K REPORT

COACH INC: SHARE PRICE DOWN MORE THAN 50% IN TWO YEARS...

- The Company's past growth/expansion strategy led to excessive promotional products/events/pricing that have damaged the Coach brand and allowed competitors such as Michael Kors, Kate Spade and Tory Burch to take away meaningful market shares from Coach.
- Since 2013, the Company has embarked on a turnaround/rebranding effort, trying to rebuild Coach into a lifestyle brand that inspires a more "emotional" response to the customers.
- Investors are becoming impatient as the Company continued to rein in promotional events/pricing, closing stores and execute rebranding strategy which has led to significant decline in revenues and profits.
- Share price has declined more than 50% in two years, from US\$ 57.90 on 29/11/13 to US\$ 27.44 on 28/09/15.
- Current share price* = US\$ 28.93 (Market Capitalisation = US\$ 8.03B)



* AS AT 17 NOVEMBER 2015

** ELEVATION CAPITAL VALUE FUND AVERAGE COST = US\$ 48.39, EXIT PRICE = US\$59.66, WITH AN IRR OF 124.5%

*** ELEVATION CAPITAL VALUE FUND PURCHASE PRICE RANGE = US\$ 28.97 - US\$ 36.89, AS AT 24 NOVEMBER 2015

COACH INC: SUCCESSFULLY OPERATING IN A GROWING MARKET GLOBALLY

+6%

ANNUAL GROWTH IN GLOBAL PREMIUM BAG AND ACCESSORIES MARKET

Coach management estimates that global premium bag & accessories market will grow from a US\$ 42B market (2015) to US\$ 55B (2020).

+24%

COACH'S SUCCESSFUL INTERNATIONAL EXPANSION MASKED BY APPRECIATING USD

The strong US Dollar has masked the successful international expansion program in recent years (24% annualised growth since 2001).



COACH INC: CONTINUING SUCCESSFUL INTERNATIONAL EXPANSION

NORTH AMERICA

- Significantly reduced outlet “flash sales”.
- Capital investment to elevate store experience in the new modern luxury concept format.

EUROPE (US\$ 9.5B market)

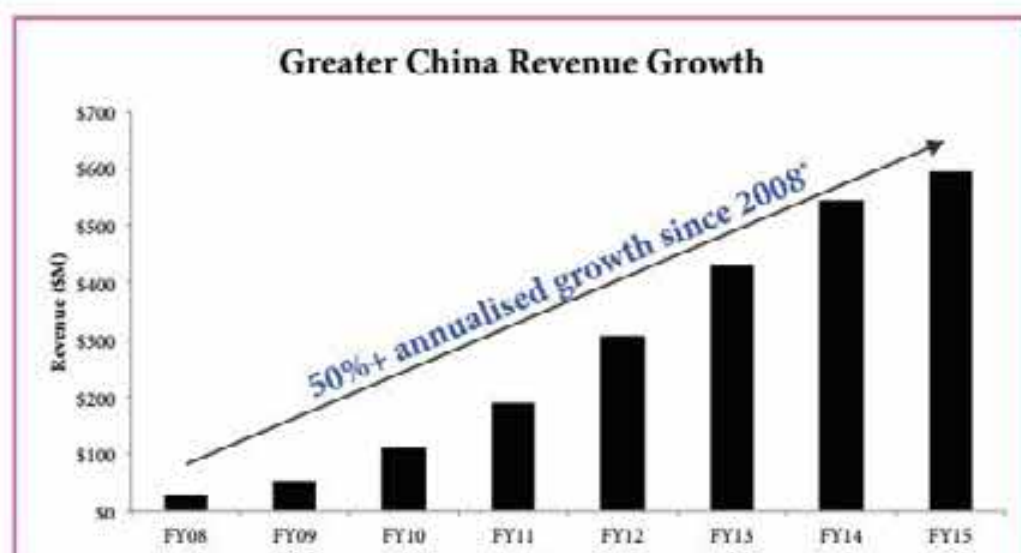
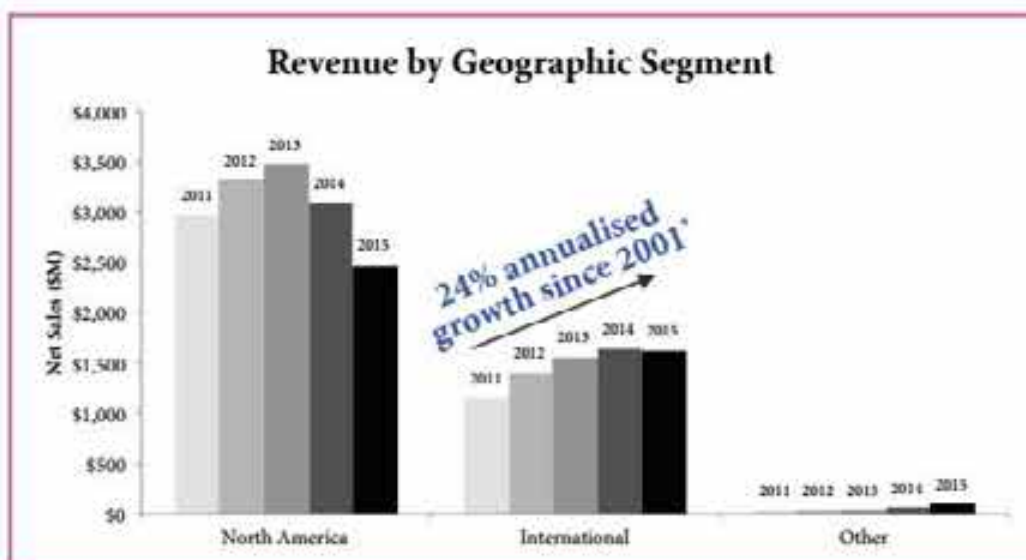
- Offers significant growth potential from a low base of 35 stores which currently produce US\$ 90M in sales (vs total sales of US\$ 4B).

ASIA / PACIFIC (US\$ 14B market)

- Envious market position in China/Greater China, with a 50%+ annualised growth since 2008.
- In China, consumers are shifting from status to value which benefits Coach.

LATIN AMERICA (US\$ 1B market)

- Small presence with a few stores run by a distributor.




SOURCE: COACH INC FY2015 AND FY2013 10-K REPORTS
* SOURCE: COACH INC INVESTOR PRESENTATION, NOVEMBER 2015

COACH INC: 'RIGHTING THE WRONG'

THE MULTI-YEAR TRANSFORMATION PLAN

As early as 2013, management realised it could not maintain the status quo. Change was needed in a way that was both bold and different. Since this point, significant changes have been made to both management and design teams, alongside a wholesale change in the company's direction/strategy.

- 
- 2013 Coach to rebrand itself as a lifestyle brand, with a renewed focus on its women's ready-to-wear line
 - 2013 In February 2013, Coach announced that Victor Luis, head of Coach's international business is to succeed long time CEO Lew Frankfort when he retires
 - 2013 In September 2013, Stuart Vevers joined Coach as Executive Creative Director, replacing long time creative director Reed Krakoff.
 - 2014 In January 2014, Victor Luis was appointed CEO of Coach
 - 2014 In August 2014, the Company announced a multi-year strategic transformation plan as Management admitted that "the competitive landscape has shifted and we have not responded effectively..."
 - 2015 Coach acquired Stuart Weitzman, a women's luxury footwear company for US\$ 574M in cash

COACH INC: THE MULTI-YEAR TRANSFORMATION PLAN

- We believe the current transformation strategy is sound, and the execution to date has brought new life into the Coach brand. However, the time required to unwind past mistakes, with its negative economic effects and the uncertainty and timing of the turnaround efforts has continued to affect investor confidence. Management's current projections suggest a return to best-in-class financial performance in FY2019.

Transformation Overview

Brand	Reinvest in our connection to consumers
Product	Commit to a higher level of fashion innovation
Stores	Elevate store environments across channels
Marketing	Increase brand share of voice and fashion content



COACH INC: NEW EXECUTIVE CREATIVE DIRECTOR – STUART VEVERS

- 1996 After graduation from University of Westminster, Stuart Vevvers started his career at Calvin Klein in New York, and then moved on to successful roles at Bottega Veneta, Givenchy and Louis Vuitton.
- 2004 Appointed Creative Director of Mulberry.
- 2006 Named Accessory Designer of the Year at the 2006 British Fashion Awards.
- 2007 Appointed Creative Director of Loewe.
- 2013 Joined Coach as Executive Creative Director to lead all aspects of the Coach brand, including Women's and Men's product design, brand imagery, and store environments.
- 2015 Named Accessories Designer at the ELLE Style Awards 2015.



“Master of the ‘It’ bag, Vevvers is the man behind the arm candy we covet, from Mulberry’s Bayswater to Loewe’s Amazona. And now to Coach, where Vevvers has revitalised the US brand and, true to form, made it cool again... Accessible, affordable and totally desirable – Stuart Vevvers’ Coach has ticked every box.”

- ELLE Style Awards 2015

COACH INC: FIRST-EVER ACQUISITION – STUART WEITZMAN

- In May 2015, Coach acquired Stuart Weitzman, a leading designer and manufacturer of women's luxury footwear for US\$ 574M in cash. Similar to Coach, it is a brand built on offering innovation, relevance, and value to a loyal customer base, and is known for its craftsmanship and quality – merging fashion and function.



STUART WEITZMAN
NEW YORK

COACH INC: INTRODUCING MODERN LUXURY...

- Management are in the process of positioning the Coach brand as a global modern luxury lifestyle brand.
- Management define Modern Luxury as:
 - Authentic expression of quality and fashion at exceptional value
 - Inviting and approachable
 - Personal relationship with a trusted brand
- Management plan to have 40% of the stores worldwide in the new modern luxury concept format by the end of FY2016.



The Company's first Paris flagship store was opened recently (October 2015), reflecting the Company's focus in fashion relevance.

COACH INC: CAPITAL STRUCTURE & OWNERSHIP

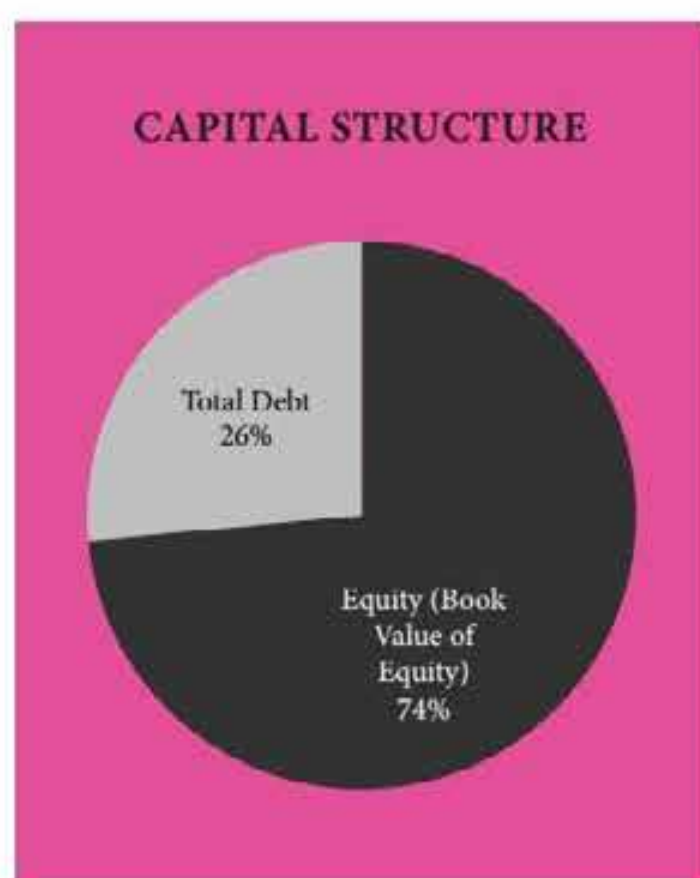
Coach has a very sound balance sheet. Very little debt is employed within the business and the majority of liabilities are made up of accrued expenses such as payroll expenses and lease liabilities.

EQUITY

- Currently, Coach has 277.5 million shares outstanding, with a market capitalisation of US\$ 8.03B based on a share price of US\$ 28.93*.
- Note the company also has an “open” register with no blocking stakes.

DEBT

- The Company has debt totalling US\$ 891M, which implies a strong net cash position of US\$ 386M as at 26 September 2015.



TOP 10 SHAREHOLDERS'	# OF SHARES	%*
The Vanguard Group	22.58M	8.14%
Dodge & Cox	17.38M	6.26%
BlackRock Institutional Trust	11.38M	4.10%
State Street Global Advisors (US)	10.88M	3.92%
Wedgewood Partners	10.51M	3.79%
T.Rowe Price Associates	9.82M	3.54%
SunAmerica Asset Management	9.52M	3.43%
Fidelity Management & Research	5.09M	1.84%
Mellon Capital Management	4.68M	1.69%
Schroder Investment Management	3.97M	1.43%
TOTAL	105.85M	38.14%

* DATA SOURCE: THOMSON REUTERS EIKON AS AT 17 NOVEMBER 2015

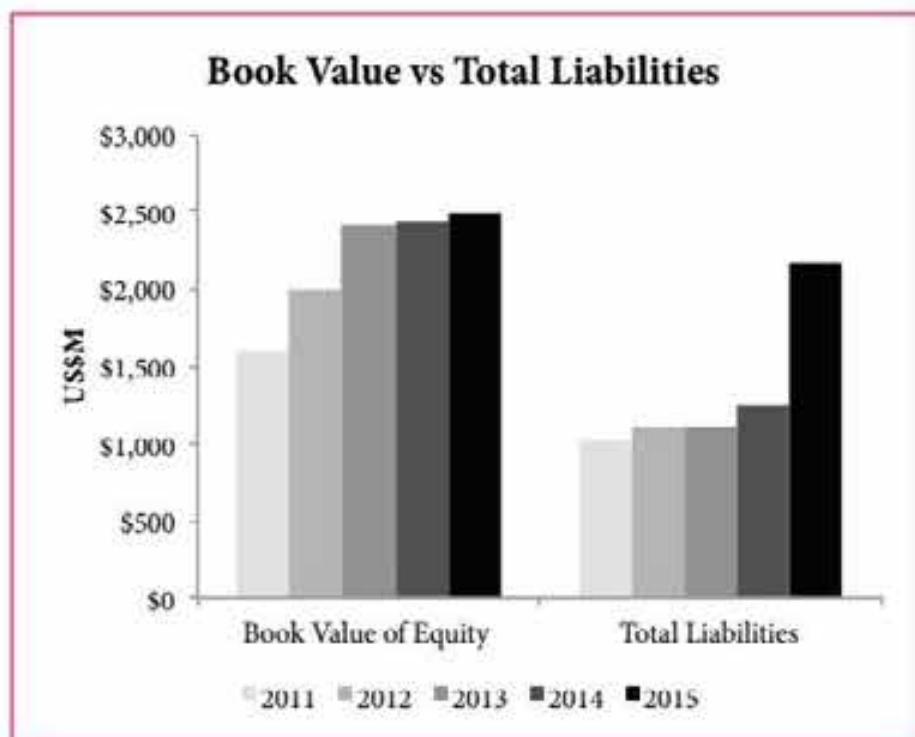
COACH INC: STRONG FINANCIAL POSITION

BALANCE SHEET

- The Company added US\$ 900M of debt (Term Loan: US\$ 300M, 4.250% Senior Notes: US\$ 600M) in FY2015.
- The Balance Sheet remains strong, with a Net Cash position (Cash = US\$ 1.3B*, Total Debt = US\$ 890M*) and US\$ 310M of Short-Term Investments.

INCOME STATEMENT

- The revenue/profit metrics have all deteriorated significantly since 2013.
- Management indicated top line growth in FY2016, with goal to return to sustainable growth and best-in-class financial performance/margins by FY2019.



* AS AT 26 SEPTEMBER 2015
 DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015

COACH INC: POSSIBLE SALE OF HQ TO ENHANCE NET CASH POSITION

2011

- Coach announced that it would become an anchor tenant in the Hudson Yards urban renewal project.

2013

- Coach announced that it would enter a JV agreement with Related Companies L.P. to develop a new office tower in Hudson Yards.
- It is expected that the Coach's cost for its share of the project will be ~US\$ 750M.
- Coach will own ~43% (~738,000 square feet) of the building, with options to buy two more floors and also a 40% property tax reduction over 20 years.
- The existing HQ (bought in 2008 for US\$ 123.5M) will be sold for US\$ 130M to fund the project in 2016.

2015

- The building is expected to be completed in early 2016.
- Management had noted the possible monetisation of the new HQ.



Relative Valuation - 11 Times Square

- 11 Times Square, a 1.1M square foot tower completed in 2010, which Norway's sovereign-wealth fund, Norges Bank Investment Management paid US\$1,272 a square foot for a 45% stake in Feb 2015 may be a rough guide for valuing 10 Hudson Yards.
- This implies Coach's 43% ownership of the building could be worth up to US\$ 939M.

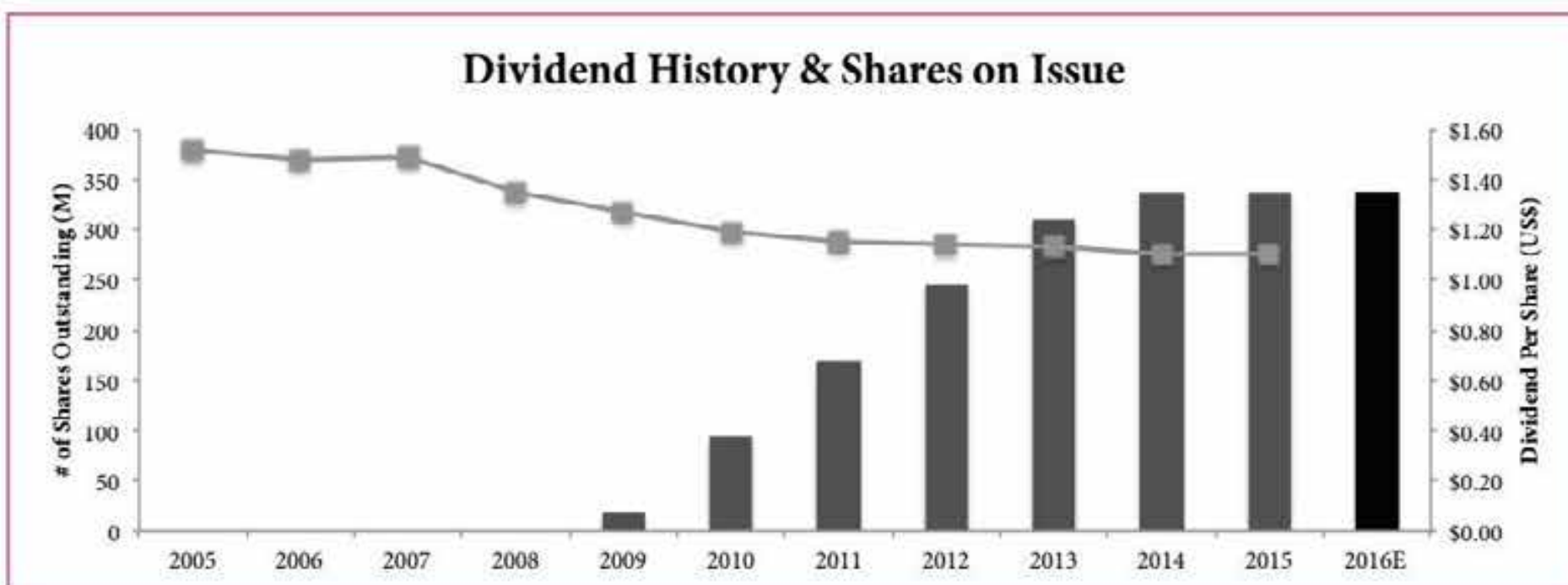
COACH INC: CAPITAL RETURNS VIA DIVIDENDS & SHARE REPURCHASING

DIVIDENDS

- Prior to any monetisation of real estate in NY (refer pg. 20), we expect the Company to continue to pay a dividend of US\$ 1.35 per share in FY2016 (Forecast Dividend Yield = 4.67%*) we then expect a progressive increase in the dividend as the turnaround efforts take hold.

SHARE REPURCHASE

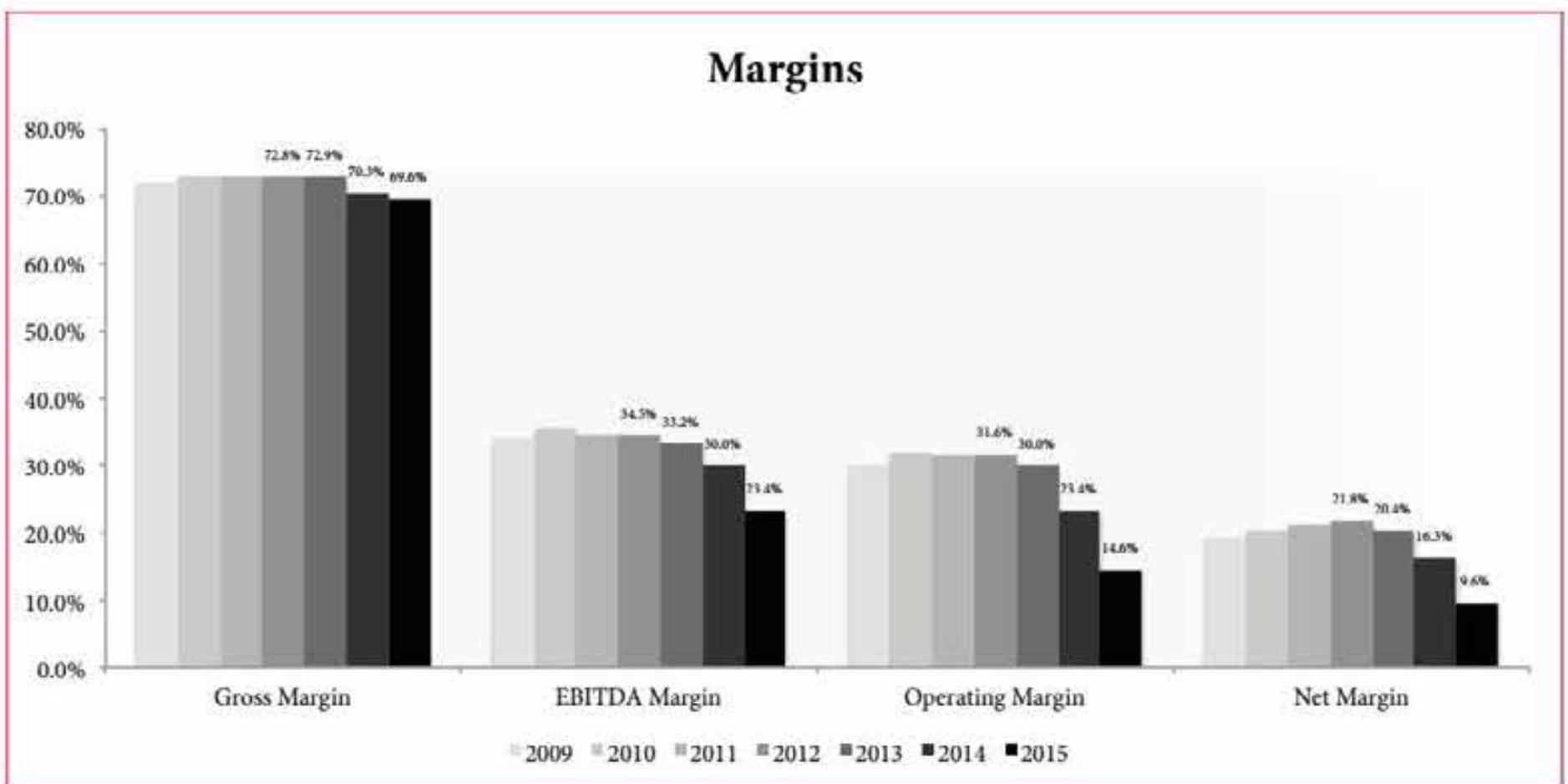
- The October 2012 board-approved US\$ 1.5B share repurchase program expired on 2 June 2015.
- Currently there is zero availability in a stock repurchase program. However, we expect new share repurchase authorisation when surplus capital becomes available for share repurchase.
- The Company did not repurchase any shares in FY2015 (10.2M in FY14, 7.1M in FY13, 10.7M in FY12, 20.4M in FY11)**.



* BASED ON SHARE PRICE OF \$28.93 AS AT 17 NOVEMBER 2015 ** COACH INC ANNUAL REPORTS 2012, 2013, 2014, 2015
 DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015

COACH INC: HIGH MARGIN BUSINESS

- Historically, Coach has high margins on both an absolute, and relative basis.
- The recent decline in Coach's margins is largely associated with the move to reposition the brand.
- The key to Coach's success going forward is the execution of their repositioning of the brand. If Coach can increase their credibility at the mid - higher end of luxury, with higher end products and less discounted goods sold, they will be able to boost margins significantly.



DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015

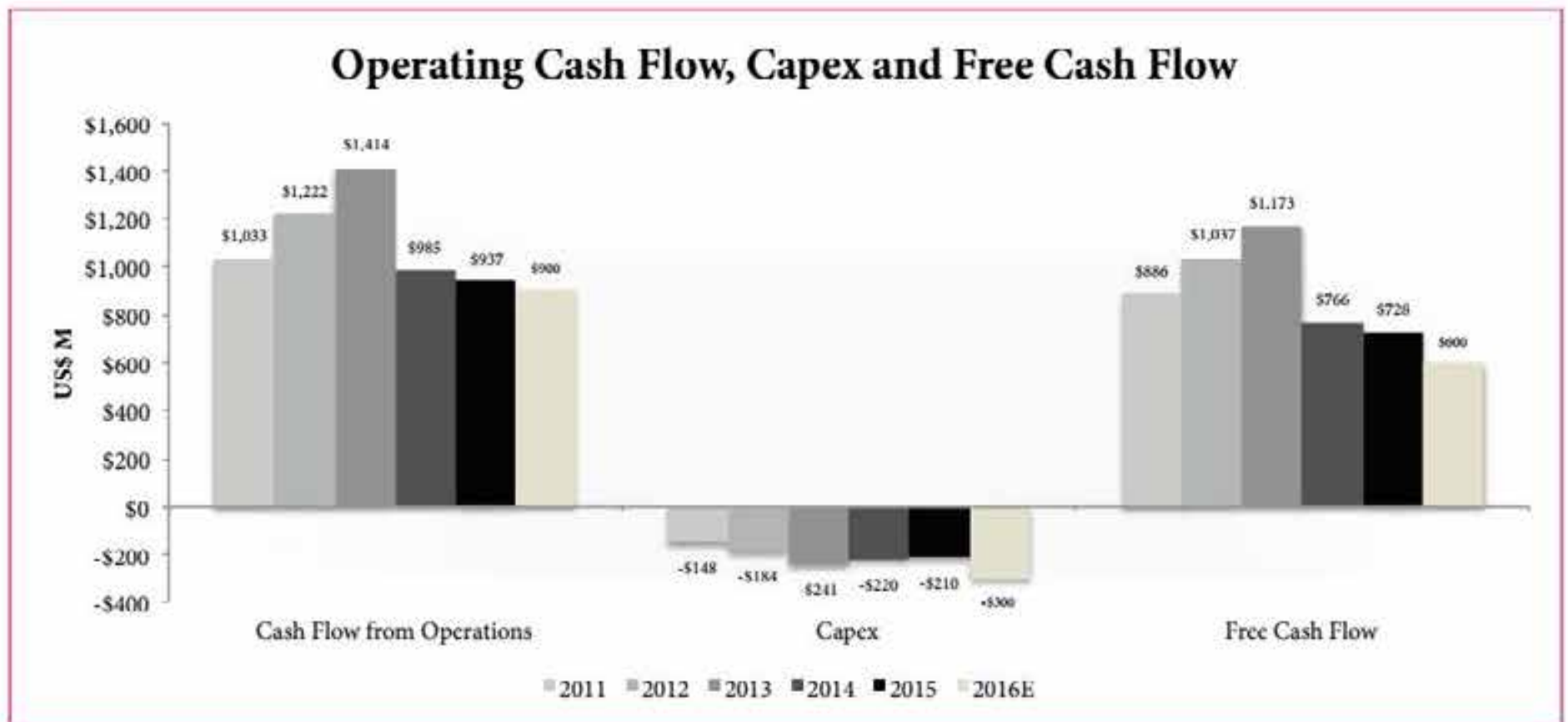
COACH INC: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

CAPITAL EXPENDITURE

- Management forecast FY2016 Capex to be US\$ 300M, excluding US\$ 185M for the new corporate HQ.

FREE CASH FLOW

- Based on a forecast Cash Flow from Operations of US\$ 900M, we estimate FY2016 FCF of ~US\$ 600M, which implies a FCF Yield of 7.5%*. We are confident that the FY2016 FCF will be able to cover the US\$ 372.5M dividend payment, even without any monetisation of real estate assets.



* BASED ON SHARE PRICE OF \$28.93 AS AT 17 NOVEMBER 2015

COACH INC: FINANCIAL LEVERAGE AND OPERATING LEASE OBLIGATIONS

- Operating Leases – Coach has lower operating lease obligations than its peer group average (based on Operating Leases / EBITDA and Operating Lease / Equity ratios).
- New HQ JV – The remaining payments for the JV total US\$ 210M, and new HQ will be completed in FY2016.
- Additionally, Management has indicated (November 2015) the potential to monetise the new HQ building.



COACH INC: COMPARABLE COMPANIES – MARGINS AND RETURNS

- Coach's margins and returns have deteriorated significantly in recent years as it continues to execute its multi-year major turnaround strategy which started in 2013. However, it is still reasonably ranked among its global peers.
- We believe Coach's margins and returns should start to improve when its turnaround efforts start to bear fruit in FY2016 and FY2017 – Signs of a turnaround will see a rerating in the stock quite quickly in our view.

Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA	Market Cap (USD M)
Mulberry Group PLC	-0.9%	60.5%	11.2%	2.9%	-1.7%	-1.2%	821
Guess? Inc	3.9%	35.9%	8.7%	5.2%	8.7%	5.8%	1,597
PVH Corp	5.3%	52.5%	11.3%	8.3%	11.0%	3.9%	7,024
Kate Spade & Co	6.7%	59.7%	7.9%	3.1%	71.2%	8.1%	2,375
L Brands Inc	9.1%	42.0%	20.9%	17.1%		14.1%	26,372
Ralph Lauren Corp	9.2%	57.5%	17.7%	13.8%	14.4%	11.5%	10,106
Tod's SpA	10.0%	74.7%	19.7%	15.4%	11.6%	8.6%	2,577
Kering SA	10.0%	62.7%	19.9%	16.6%	8.6%	4.5%	22,556
Fossil Group Inc	10.7%	57.0%	18.9%	16.1%	33.4%	17.4%	1,663
Tiffany & Co	11.4%	59.7%	25.5%	21.0%	15.3%	9.7%	9,559
Salvatore Ferragamo SpA	11.8%	63.7%	22.2%	18.7%	35.0%	17.8%	3,908
Prada SpA	12.7%	71.8%	26.9%	19.9%	14.0%	10.6%	9,591
Compagnie Financiere Richemont SA	12.8%	66.1%	28.0%	23.5%	12.3%	7.3%	40,504
Hugo Boss AG	13.0%	66.1%	22.9%	18.7%	38.1%	21.1%	6,500
Burberry Group PLC	13.3%	70.0%	23.3%	17.7%	27.4%	16.5%	8,629
LVMH Moet Hennessy Louis Vuitton SE	18.4%	64.7%	23.0%	18.7%	22.6%	11.1%	89,792
Moncler SpA	18.8%	45.9%	33.5%	29.8%	36.6%	14.8%	3,982
Michael Kors Holdings Ltd	20.2%	60.6%	31.9%	28.8%	41.4%	35.9%	7,237
Hermes International SCA	20.9%	66.8%	35.3%	31.8%	30.0%	19.5%	37,520
Coach Inc	9.6%	69.6%	23.4%	18.8%	15.5%	9.7%	8,029
Coach Inc - Historic (5yr average)	17.9%	71.7%	31.1%	26.2%	42.0%	26.7%	
Median	11.4%	60.6%	22.2%	17.7%	18.9%	11.1%	7,237
Mean	11.4%	59.9%	21.5%	17.2%	23.9%	12.5%	15,385

DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015

COACH INC: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Coach is among several companies that are in a Net Cash position (Cash = US\$ 1.3B*, Total Debt = US\$ 890M*).
- It has a conservative balance sheet that could withstand prolonged market weakness.
- The Balance Sheet is set to strengthen further with a real estate divestment – estimated net proceeds +US\$ 1 Billion (New HQ +US\$900M and old building US\$130M).

Company Name	Net Debt To EV	Net Debt To EBITDA	Total Debt to Total Equity	Quick Ratio	Market Cap (USD M)
L Brands Inc	13.0%	1.60	26,472.2%	1.31	26,372
Kate Spade & Co	7.1%	1.95	205.8%	1.25	2,375
PVH Corp	29.3%	3.19	81.3%	1.15	7,024
Fossil Group Inc	23.2%	0.95	64.5%	2.00	1,663
Moncler SpA	3.9%	0.56	55.9%	0.94	3,982
Kering SA	19.4%	2.62	53.6%	0.53	22,556
IVMH Moet Hennessy Louis Vuitton SE	6.7%	0.80	42.2%	0.71	89,792
Tiffany & Co	3.1%	0.30	39.4%	1.90	9,559
Salvatore Ferragamo SpA	1.0%	0.13	31.4%	0.74	3,908
Compagnie Financiere Richemont SA	Net Cash	Net Cash	21.4%	2.06	40,504
Hugo Boss AG	2.9%	0.31	20.4%	0.91	6,500
Ralph Lauren Corp	Net Cash	Net Cash	20.3%	1.92	10,106
Prada SpA	2.8%	0.29	17.3%	1.11	9,591
Burberry Group PLC	Net Cash	Net Cash	4.7%	1.55	8,629
Tod's SpA	Net Cash	Net Cash	4.4%	1.38	2,577
Hermes International SCA	Net Cash	Net Cash	1.2%	1.80	37,520
Guess? Inc	Net Cash	Net Cash	0.7%	2.62	1,597
Michael Kors Holdings Ltd	Net Cash	Net Cash	0.0%	1.54	7,237
Mulberry Group PLC	Net Cash	Net Cash	0.0%	0.74	821
Coach Inc	Net Cash	Net Cash	35.8%	2.42	8,029
Median	6.7%	0.80	26.4%	1.34	7,633
Mean	10.2%	1.15	1,358.6%	1.58	15,017

* AS AT 26 SEPTEMBER 2015

DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015, QUICK RATIO IS DEFINED AS (CASH + MARKETABLE SECURITIES + ACCOUNTS RECEIVABLE) / CURRENT LIABILITIES

COACH INC: COMPARABLE COMPANIES – VALUATION

- Coach is among several companies (Fossil, Michael Kors, Ralph Lauren, Guess?) that are trading at low valuations on both an absolute, and relative basis to rest of the peer group companies globally.

Company Name	P/E	Forward P/E	P/S	EV/ EBITDA	P/CF	P/B	Gross Div Yield	Market Cap (USD M)
Kate Spade & Co	53.3	37.0	2.0	48.4	24.1	13.7	0.0%	2,375
Mulberry Group PLC			3.6	30.1	71.1	6.9	0.6%	821
Hermes International SCA	36.0	34.2	7.8	20.2	33.0	10.8	1.9%	37,520
Prada SpA	29.5	21.2	2.5	13.8	26.6	3.0	3.1%	9,591
PVH Corp	20.9	12.2	0.9	13.0	7.5	1.6	0.2%	7,024
Compagnie Financiere Richemont SA	31.8	19.1	3.5	12.7	20.5	2.9	2.1%	40,504
Kering SA	19.9	18.4	2.0	12.6	23.0	2.0	1.5%	22,556
Moncler SpA	21.3		4.6	12.4	23.9	7.8	0.8%	3,982
Burberry Group PLC	23.1	17.3	2.2	12.3	11.8	4.1	2.8%	8,629
Hugo Boss AG	21.1	17.5	2.2	11.9	15.3	6.9	4.2%	6,500
Salvatore Ferragamo SpA	22.0	22.0	2.6	11.9	19.7	7.4	1.9%	3,908
L Brands Inc	23.7	23.9	2.3	11.4	15.4	-40.8	1.8%	26,372
Tod's SpA	22.7	23.7	2.4	10.8	36.2	3.0	2.5%	2,577
Tiffany & Co	23.2	18.4	2.3	10.7	12.4	3.3	2.1%	9,559
LVMH Moet Hennessy Louis Vuitton SE	11.8	21.9	2.5	10.3	16.3	3.6	2.0%	89,792
Fossil Group Inc	15.5	7.8	0.5	9.0	5.1	1.9	0.0%	1,663
Michael Kors Holdings Ltd	15.6	9.1	1.6	8.9	6.9	3.8	0.0%	7,237
Ralph Lauren Corp	16.7	17.0	1.3	8.1	10.3	2.7	1.6%	10,106
Guess? Inc	17.0	19.4	0.7	5.4	8.9	1.5	4.8%	1,597
Coach Inc	24.9	15.4	1.9	9.5	10.0	3.2	4.7%	8,029
Median	21.7	19.1	2.3	11.9	16.3	3.3	1.9%	7,237
Mean	23.6	20.0	2.5	14.4	20.4	2.4	1.8%	15,017

DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015
CF = CASH FLOW, BV = BOOK VALUE

COACH INC: GLOBAL LUXURY GOODS INDUSTRY

The share price movement in publicly listed luxury goods companies has been influenced by two factors over the past two to three years – (i) a slowdown in global demand and (ii) the prospect of consolidation.

A SLOWDOWN IN GLOBAL DEMAND

One major factor is the slowing of the Chinese market and by 'anti-corruption' measures imposed by the Chinese government which have reduced demand for luxury goods significantly. China makes up around 29% of demand for personal luxury products. North America represents 22% of demand and Europe around 21%, reflecting how important the Chinese market is to global luxury.

PROSPECT OF INDUSTRY CONSOLIDATION

The reduction in trading multiples and the ongoing process of consolidation which has seen the larger luxury goods businesses such as LVMH, Kering and Richemont acquire smaller businesses has seen the stocks of some of their mid-sized competitors elevated in the anticipation of a bid. Companies such as Salvatore Ferragamo and, to a lesser extent, 'Tod's, have seen an M&A premium being applied to their stock prices in recent times as a result of speculation that one of the large industry players (particularly LVMH) would launch a takeover.

LONG-TERM GROWTH PROSPECT

At a more fundamental, long-term level, demand for luxury goods is driven by trends in the market as well as disposable incomes. The market is relatively price inelastic in that consumers are less reactive to changes in prices than they are in other markets. Companies focus on differentiating their brand from others, with price reflecting consumer perceptions of brand and fashion applications rather than the input costs of the products. Accordingly, the industry is high margin relative to others, with the key area of expenditure being marketing rather than COGS.

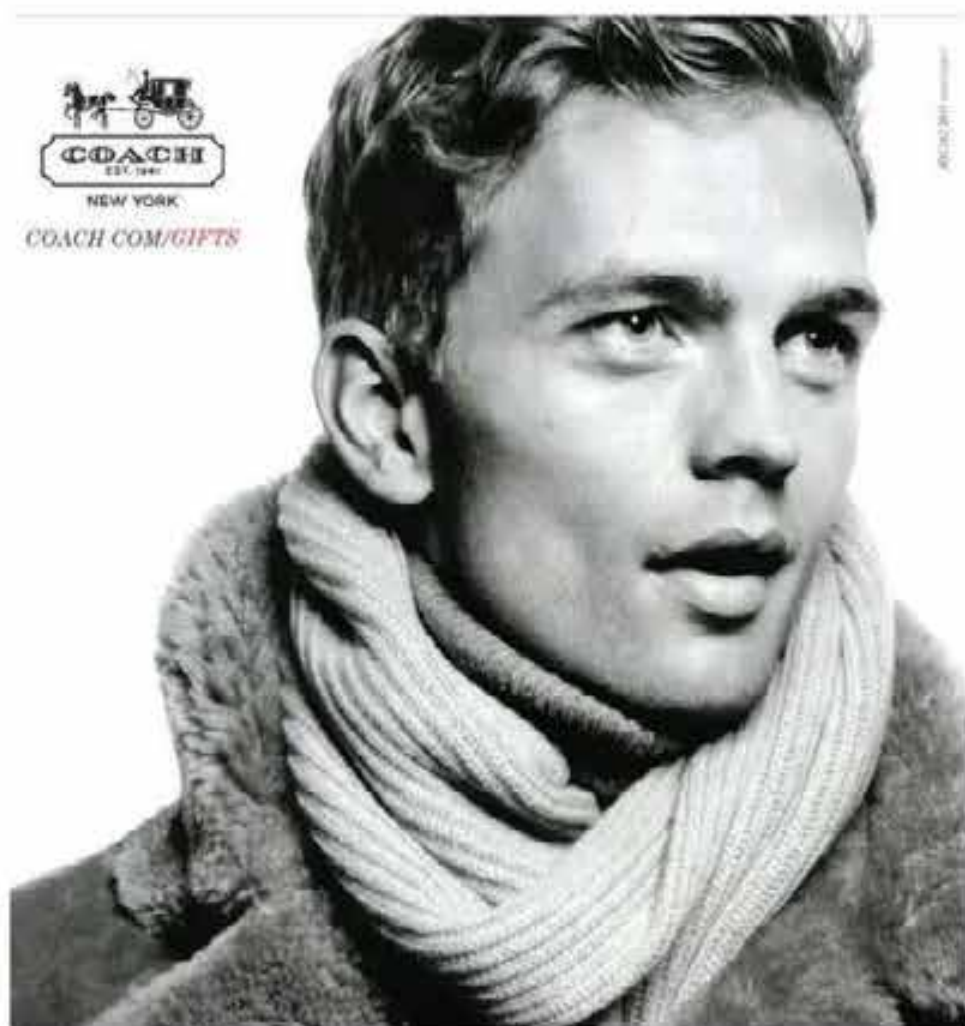


* [HTTP://WWW.THISISMONEY.CO.UK/MONEY/INVESTING/ARTICLE-3165617/INVESTMENT-EXTRA-FASHION-FLAP-CHINA-BLIP.HTML](http://www.thisismoney.co.uk/money/investing/article-3165617/investment-extra-fashion-flap-china-blip.html)

COACH INC: RECENT INDUSTRY M&A TRANSACTIONS

- The luxury sector has seen an increase in the level of M&A activity over the last three-five years. LVMH, Kering and Richemont are all seen as natural acquirers in an industry which has already experienced significant consolidation.
- We also see a possibility that Coach could be acquired by Private Equity (PE). The margin expansion potential, lack of financial leverage and the strong brand recognition of the Company (alongside its low valuation relative to other listed peers) make it a potentially attractive asset for some large PE investors.

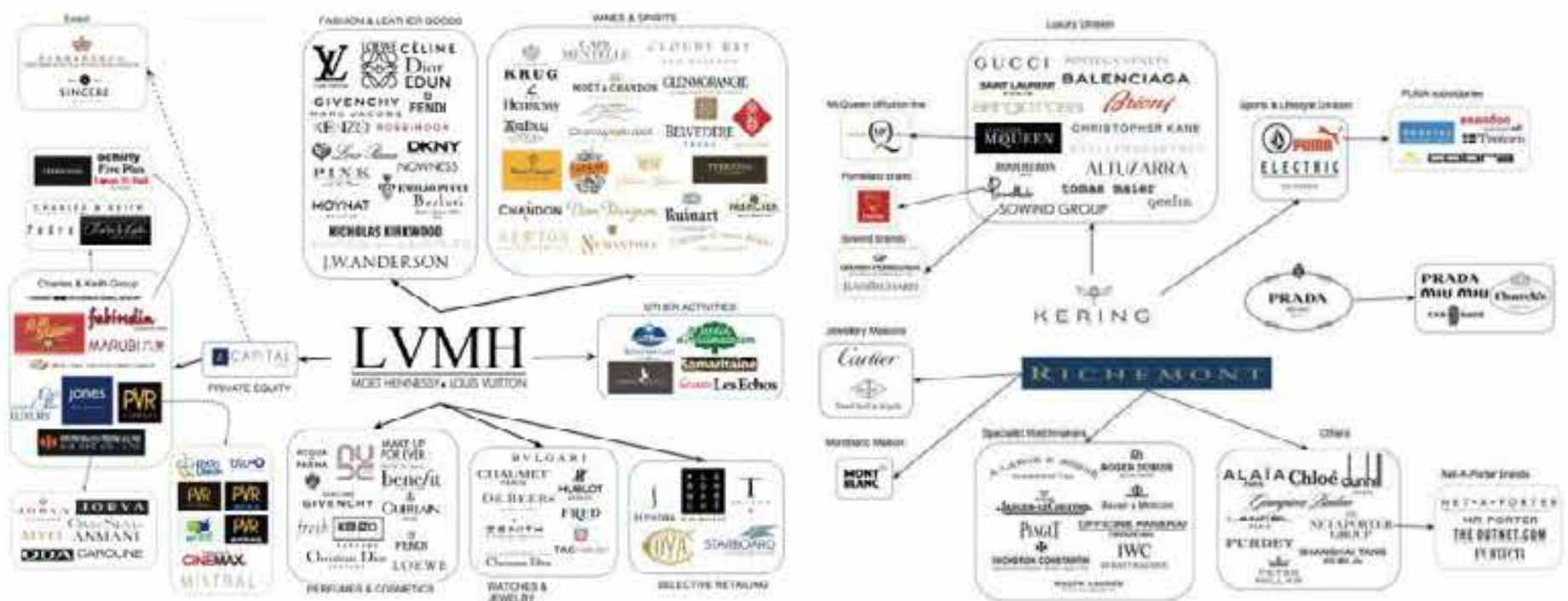
Acquirer	Target	Deal Status	Deal Value (US\$)	EV/EBITDA
VF Enterprises	Timberland Co.	2011	2.18B	11.8x
LVMH	Bulgari	2011	5.20B	22.0x
LVMH	Hermes International (17% Stake)	2011	2.00B	15.5x
PPR	Brioni SpA	2011	0.41B	30.0x
Eurazeo	Moncler SpA (45% Stake)	2011	0.61B	11.8x
Central Retail Corp	La Rinascente	2011	0.37B	11.0x
Mayhoola	Valentino	2012	0.86B	20.0x
LVMH	Loro Piana	2013	2.60B	18.0x
Swatch	Harry Winston	2013	1.00B	23.0x
Signet	Zale	2014	1.46B	15.0x
Average				16.8x
Coach			EV = 7.6B	9.5x



COACH INC: CONSOLIDATION IN THE LUXURY GOODS INDUSTRY

We see the value of Coach in a takeover being between
US\$ 40.50 - US\$ 45.52

Coach may be taken private or acquired by a large competitor. It is our view that a trade sale, to the likes of Kering for example, could be a longer term prospect, rather than short term. Although acquirers like businesses with the potential for margin expansion, we believe that potential acquirers will prefer to sit back and wait to see the results of the turnaround strategy. However, consolidation in the luxury goods industry, driven by Kering, LVMH and Richemont, has been strong recently and there is potential one of these businesses may acquire Coach in the medium term to solidify a global position in mid-tier luxury. We see the value of Coach in a takeover scenario as being between US\$ 40.50 and US\$ 45.52 (reflecting a takeover multiple of between 13.4 x and 15.1x).



* BASED ON KERING SA'S SHARE PRICE OF €160.95, AND PUMA SE'S SHARE PRICE OF €207.15 AS AT 23 NOVEMBER 2015.
 BRANDS MAP SOURCE: [HTTP://QUIDDITYOF.COM/TAG/BRANDS-MAP/](http://quiddityof.com/tag/brands-map/)

COACH INC: ALTERNATE SCENARIO #1 – COACH TRANSFORMS INTO A LUXURY CONGLOMERATE

- Coach may seek to turn itself into a luxury conglomerate to reduce dependence on its core brand.
- The Stuart Weitzman acquisition makes a lot of sense in terms of footwear which was a weak part of Coach's product lineup because of legacy licensing arrangements.
- However, future acquisitions are not without risk given the high multiples typically paid within the sector.

POTENTIAL ACQUISITION TARGETS FOR COACH



(Family Owned)



(Family Owned)



(Private)



(Market Cap = ~GBP 560M)



(Market Cap = ~GBP 550M)

COACH INC: ALTERNATE SCENARIO #2 – COACH AND RALPH LAUREN MERGER

- A merger of Ralph Lauren Corp and Coach Inc would create a luxury group that comprises both mid-tier and high-end luxury with a global footprint

US\$ 10.59B*

Market Cap

RALPH LAUREN CORP (RL:US)

US\$ 8.03B*

Market Cap

COACH INC. (COH:US)



* BASED ON SHARE PRICES AS AT 17 NOVEMBER 2015

COACH INC: ALTERNATE SCENARIO #3 – COACH AND BURBERRY MERGER

- A merger of Burberry Group PLC and Coach Inc would also create a luxury group that comprises both mid-tier and high-end luxury with a global footprint.

US\$ 8.36B*

Market Cap

BURBERRY GROUP PLC (BRBY:LN)

US\$ 8.03B*

Market Cap

COACH INC. (COH:US)

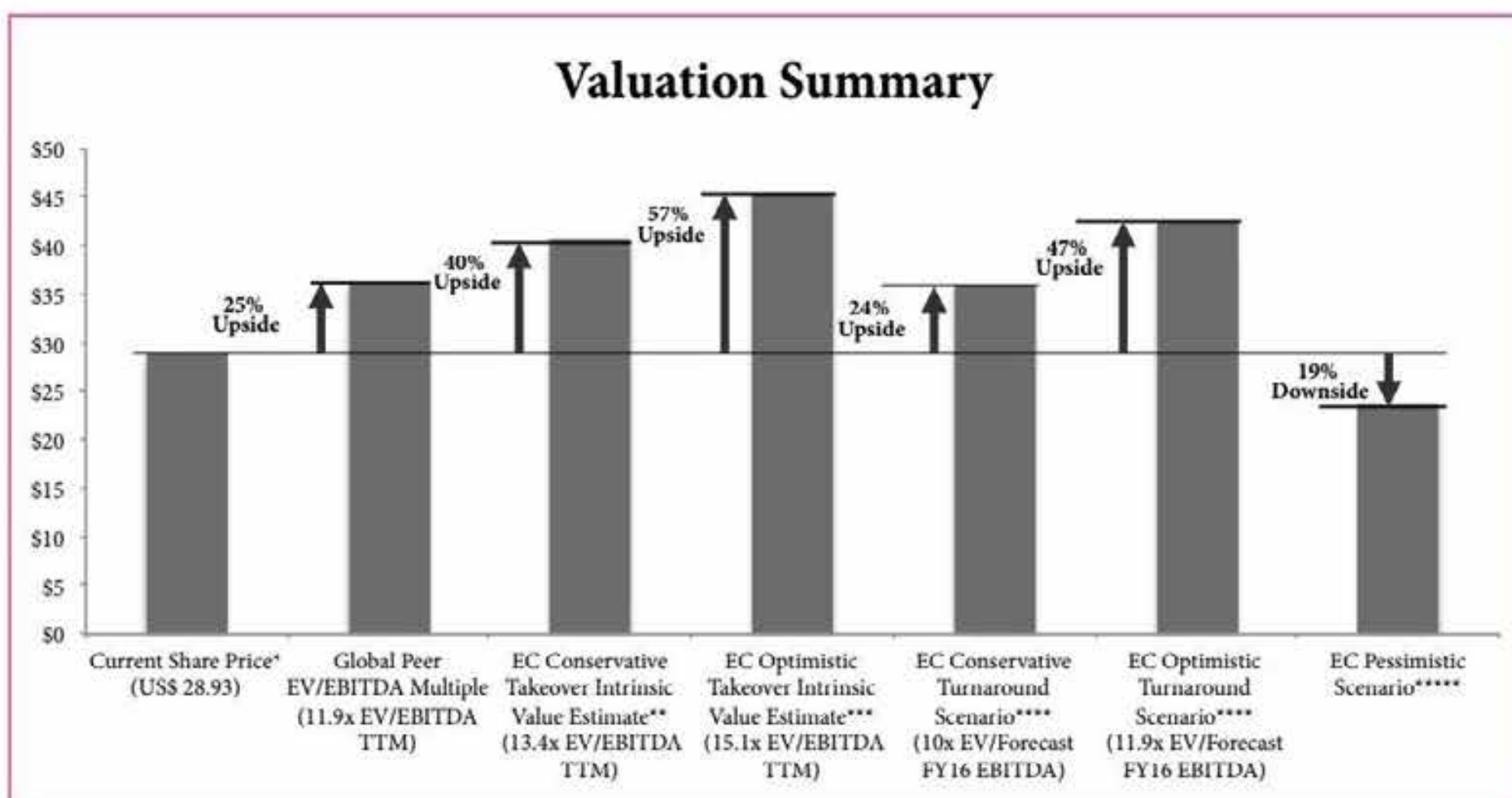


* BASED ON SHARE PRICES AS AT 17 NOVEMBER 2015

COACH INC: ELEVATION CAPITAL'S VALUATION RANGE

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:
**US\$ 23.53 -
US\$ 45.52**
PER SHARE

UPSIDE POTENTIAL
RANGE:
-19% - +57%



* CURRENT SHARE PRICE = US\$ 28.93 (AS AT 17 NOVEMBER 2015)

** EC CONSERVATIVE TAKEOVER INTRINSIC VALUE ESTIMATE IS BASED ON 20% DISCOUNT TO RECENT INDUSTRY M&A MULTIPLE OF 16.8X

*** EC OPTIMISTIC TAKEOVER INTRINSIC VALUE ESTIMATE IS BASED ON 10% DISCOUNT TO RECENT INDUSTRY M&A MULTIPLE OF 16.8X

**** BASED ON THOMSON REUTERS SMARTESTIMATE FORECAST FY16 EBITDA OF US\$ 960M

COACH INC: KEY OPPORTUNITIES

TURNAROUND

The significant decline in Coach's revenue reflects the importance of Coach's turnaround strategy. They have lost ground to their most direct competitors (Michael Kors, Tory Burch and Kate Spade), with revenue growth stagnant since 2012. There are some external reasons for this (i.e. beyond the control of management), however, in large part it is down to over-exposure/devaluation of the brand. A turnaround rests on the shoulders of Stuart Vevers (Creative Director), who was appointed in 2013. If the Coach brand can be turned around and can gain credibility at price points above those it has targeted in the past (and at a premium to the likes of Michael Kors and Kate Spade, etc.) there is potential for revenue growth and, most importantly, higher margins.

CHINA AND EUROPE

The Chinese market has provided a headwind over the past two years, largely as a result of the Chinese government's anti-extravagance legislation. Despite this, the business is growing in China, and is well positioned in Tier 1 through Tier 4 cities. Management have recently announced a change of focus in China, with the closure of some stores in less attractive areas and a drive to establish a presence in more attractive areas with flagship stores. In the long run, China will be one of Coach's largest and fastest growing markets. Likewise, Coach is experiencing difficulties in the European market at present as a result of uncertain economic conditions. In the long run, Europe also presents an opportunity to increase market share, given its current size.

M&A ACTIVITY

We suggest that it is possible that one of large luxury goods conglomerate such as LVMH or Kering could acquire Coach, as we have observed strong consolidation activities in the luxury goods industry by these conglomerates in recent years. In the case of Kering, we suggest that it can dispose its controlling stake in Puma SA (market value of US\$ 2.86B*) to partially finance an acquisition of Coach.

PRIVATE EQUITY

We also see a possibility that Coach could be acquired by private equity. We note that the margin expansion potential, lack of leverage and the strong brand recognition of the Company (alongside its low valuation relative to other businesses) may make it an attractive asset to some large PE investors. Large US retail private equity managers such as Leonard Green** could be interested in Coach, as well as the major firms such as KKR, Carlyle, TPG or Blackstone.

MONETISATION OF NEW HQ

Management have recently expressed the willingness to monetise the new headquarters at 10 Hudson Yards in New York. As we noted, the cost for Coach's ~43% stake of the building is ~US\$ 750M, and we suggest its 43% stake currently has an implied market value of ~US\$ 939M based on recent real estate transactions.

* BASED ON PUMA SE'S SHARE PRICE OF €207.15 AS AT 23 NOVEMBER 2015

** LEONARD GREEN HAS HISTORICALLY INVEST IN THE RETAIL SECTOR, INCLUDING COMPANIES SUCH AS BJ'S WHOLESALE CLUB, DAVID'S BRIDAL, DEL TACO, J. CREW GROUP, JO-ANN STORES, LUCKY BRAND, THE SPORTS AUTHORITY, ETC.

COACH INC: KEY RISKS

COUNTERFEIT PRODUCTS

All luxury goods producers have faced counterfeit risks increasingly over the past decade, particularly in the Asian region. As for Tod's, Coach holds the advantage that quality leather is difficult to convincingly imitate and the Company's leather goods are therefore less vulnerable to counterfeit activities. However, the patterned and synthetic hand bags and accessories are susceptible.

LACK OF EXECUTION

Much of Coach's future success rests on its ability to execute its turnaround strategy. If Coach fails to gain traction with its new line of products or if its newly remodelled stores fail to increase the brand's appeal, then Coach may face a continuing decline in revenue and earnings.

CURRENCY RISKS

A significant part of Coach's business is now derived from markets outside of the United States (39% in FY2015) and this is set to increase further. The strength of the US dollar and the decline of a number of other currencies (including the Euro and the Yen) was a strong headwind during FY2015 and is expected to remain so in the near term.

REGULATORY RISKS

The Chinese government's anti-extravagance laws, aimed at stamping out gifting of luxury goods among government workers, has had a negative effect on luxury companies around the world, including Coach. Previously, Chinese state officials would lavish guests and business associates with gifts such as watches, bags and liquor etc. However, beginning in late 2012, anti-extravagance laws came into effect, providing a lengthy list of do's and don'ts for gifting by state officials. The net effect has been to reduce the practice dramatically, which has in turn had a negative effect on luxury goods manufacturers. Similarly, a consumption tax imposed in Japan during FY2014 hurt revenues there, which fell 7%. These sorts of regulatory changes, in regions where Coach is seeking to expand, can have a significant influence on sales.

LEASES

Lease obligations are quasi-debt. Coach has lower operating lease obligations than its peer group average (total obligations are 1.49x EBITDA, relative to a peer group average of 1.59x). However, if revenue and earnings continue to decline, operating lease liabilities will become a more significant cost.

COMPETITION

The likes of Michael Kors, Kate Spade, Ralph Lauren and Marc Jacobs have increased their presence in the affordable luxury category in recent years. Where once Coach was able to dominate the affordable luxury space with a small group of others, now many brands are seeking to make inroads into this space. The solution for Coach is to break through the group to find its own pricing points at a slight premium to the rest, as it is seeking to do with its handbag line.

COACH INC: ELEVATION CAPITAL CONCLUSION

TURNAROUND SITUATION

A lot rests on Coach's turnaround strategy. During FY2015, Coach has thus far seen revenue and margins fall significantly. The brand has been devalued by discounting, a high prevalence of outlet offers and product overlap. Where Coach's products were previously available at discount stores for prices 25% lower than in department stores, this will no longer be the case. Coach's new strategy seeks to address this directly, by reducing store count and focusing on the better department stores, airports and the flagship stores in cities around the world. Stuart Vevers, in the work he has done since being appointed as Creative Director, has focused on Coach's 73 years of heritage and on its New York roots, with Forbes saying - "*the new collection gives a nod to Coach's classics*". The brand is resetting itself in China, a key market, by shutting down stores which have become less attractive and opening new flagship stores in more attractive spots such as Shanghai, Beijing and Shenzhen.

SHORT-TERMISM CREATES OPPORTUNITY TO BUY A GREAT FRANCHISE

The market's reaction to Coach's troubles has provided long-term opportunity. Coach now trades at multiples below its historical averages and below that of its peers. This is despite having a long list of attributes not easily replicable. Firstly, it is a classic and enduring brand with an unmistakable link to New York. Secondly, it has profitability metrics which don't bear resemblance to its valuation - its EBITDA growth over ten years has been higher than peers and its margins are higher than the majority of its peers even taking into account the reductions over FY2015. It is in a net cash position and it pays a dividend larger than any of the peers we compare it against (gross dividend yield of 4.7%* relative to a peer group median of 1.9%). Lastly, in the long term, Coach may potentially become a target for a larger competitor or private equity.



* BASED ON SHARE PRICE OF \$28.93 AS AT 17 NOVEMBER 2015

ELEVATION CAPITAL MANAGEMENT LIMITED DE LA RUE PLC [DLAR:LN]

Research Presentation released in July 2015





DE LA RUE: THE WORLD'S LARGEST COMMERCIAL BANKNOTE PRINTER

- De La Rue PLC is the world's largest commercial banknote printer, involved in the production of over 150 national currencies.



BANKNOTES

DE LA RUE: THE WORLD'S LARGEST PASSPORT MANUFACTURER

- De La Rue PLC is also the world's largest passport manufacturer and solution provider.



PASSPORTS

DE LA RUE: MULTIPLE BUSINESS LINES

1.

2.

3.

4.



CENTRAL BANKS CURRENCY

The Company provides market leading printed banknotes, banknote substrates and security features

STATE MANUFACTURING

The Company supplies substrates, component security features, services and solutions to the state manufacturing sector

CENTRAL BANKS CASH PROCESSING SOLUTIONS

The Company provides central banks with an integrated range of cash processing products, consultation, and support services

COMMERCIAL SECTOR CASH PROCESSING SOLUTIONS

The Company provides the commercial sector with an integrated range of cash processing products, consultation, and support services

5.

6.

7.



PROTECTING IDENTITY

The Company is the largest commercial provider of passport solutions in the world

GOVERNMENT AUTHENTICATION & TRACEABILITY SOLUTIONS

The Company combines digital, data and physical security to deliver authentication and traceability solutions

FINANCIAL & SECURE DOCUMENTS

The Company is the world's largest commercial security printer

DE LA RUE: MULTIPLE BUSINESS LINES CONSOLIDATED INTO 2 REPORTING SEGMENTS

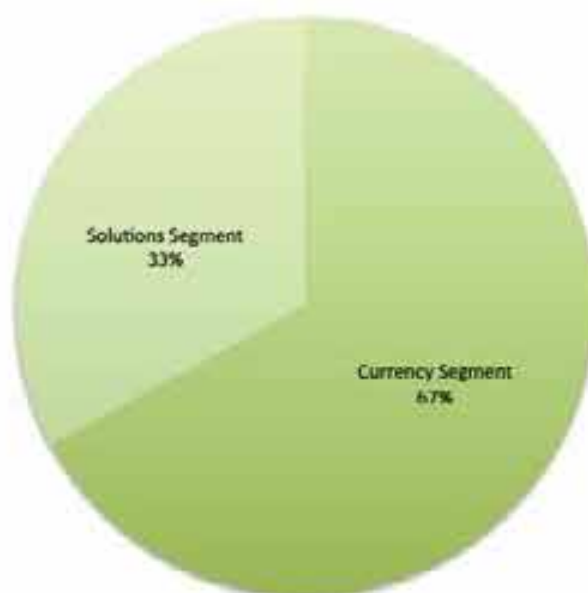
- The lumpy nature of the currency printing business dictates the need for the Company to have multiple revenue streams outside its currency printing business. The Company has two reporting business segments:

1.

CURRENCY SEGMENT

(67% Revenue)

Production of printed banknotes, banknote paper and banknote security components



2.

SOLUTIONS SEGMENT

(33% Revenue)

Cash Processing Solutions (15% Revenue)
Production of large banknote sorters and authentication machines

Security Products (8% Revenue)
Production of security documents, including authentication labels, cheques, stamps etc.

Identity Systems (10% Revenue)
Production of passports, ePassport, national ID and eID, driving licenses etc.



DATA SOURCE: DE LA RUE ANNUAL REPORTS

DE LA RUE: GLOBAL DIVERSIFIED REVENUE GENERATION

- De La Rue has been involved in the production of over 150 national currencies, and passports or identity systems for over 65 countries. It employs approximately 4,000 people in 24 countries.



DE LA RUE: TWO HUNDRED YEARS OF INNOVATION

- 1813 Thomas de La Rue's first commercial venture was in 1813, when the first edition of Le Miroir Politique newspaper was published in Guernsey
- 1821 Thomas de la Rue set up in London as a printer, stationer and fancy goods manufacturer
- 1853 De La Rue was awarded the contract to print adhesive fiscal stamps for the UK's Board of Inland Revenue. Not only the first stamps to be surface printed, they were also the first perforated stamps to be issued
- 1860 Thomas de la Rue printed its first paper money - the Mauritius £5, £1 and 10 shilling notes
- 1921 The de la Rue family left the business and the Company converted to public ownership
- 1947 De La Rue listed on the London Stock Exchange on 27 March 1947
- 1957 De La Rue first marketed a banknote counting machine
- 1967 De La Rue jointly developed and installed the world's first through the wall ATM at Barclay's Bank in Enfield, UK
- 2003 De La Rue signed a seven-year contract to print and supply sterling for the Bank of England, taking over the Bank's manufacturing operation
- 2009 De La Rue won a 10 year contract to produce the UK passport and The Bank of England renews the contract to print sterling
- 2013 De La Rue celebrates its 200th anniversary
- 2014 De La Rue won a new 10 year contract to print Britain's banknotes that will start in April 2015

DE LA RUE: ESTABLISHED REPUTATION IS ONE OF ITS MOST VALUABLE ASSETS

De La Rue is one of the most recognised and highly regarded names in the currency printing business. Its global customers include many of the world's central banks and government agencies.



LA POSTE



BANK OF ENGLAND

The Economist | World politics | Business & finance | Economics | Science & technology | Culture

De La Rue
Cash machine

The business of printing money thrives on financial crises
Aug 11th 2012 | BASINGSTOKE | From the print edition

[Times](#) | [Like](#) | [+1](#) | [Tweet](#)

South Sudan bucks up

FEW businesses do well in a climate of global political instability and mistrust of banks. De La Rue, the world's largest commercial banknote printer, is one of them. The Basingstoke-based firm's profits rose by a fifth in 2003 thanks in part to a contract to supply a new currency to Iraq. It also created a currency for the world's newest country, South Sudan, in time for its independence a year ago. Disintegration of the euro zone would be terrible for most businesses but an opportunity for De La Rue.

DE LA RUE: KEY COMPETITORS IN THE BANKNOTE & IDENTITY SYSTEMS INDUSTRIES



DE LA RUE

UK-Domicile

Founded in 1813

Public Company

~4,000 employees worldwide

2014 Revenue: £473M

Key Businesses:

Currency:

67% Revenue

Cash Processing Solutions:

15% Revenue

Security Products:

8% Revenue

Identity Systems:

10% Revenue



OBERTHUR TECHNOLOGIES

French-Domicile

Founded in 1842

Private Company

~6,000 employees worldwide

Revenue: \$1.3B

Key Businesses:

Payment:

A customer relationship reinvented by mobility

Telecoms:

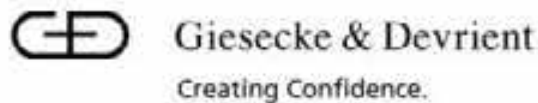
The technologies and markets that make mobility happen

Identity:

ID documents and identification solutions

Solutions:

OT solutions for a world of mobility



GIESECKE & DEVRIENT

German-Domicile

Founded in 1852

Private Company

~11,450 employees worldwide

2014 Revenue: €1.8B

Key Businesses:

Banknote:

48% Revenue- paper, printing, processing

Mobile Security:

41% Revenue- financial institutions, enterprise security / OEM

Government Solutions:

9% Revenue- Veridos, secunet

STATE OWNED PRINTERS

Global

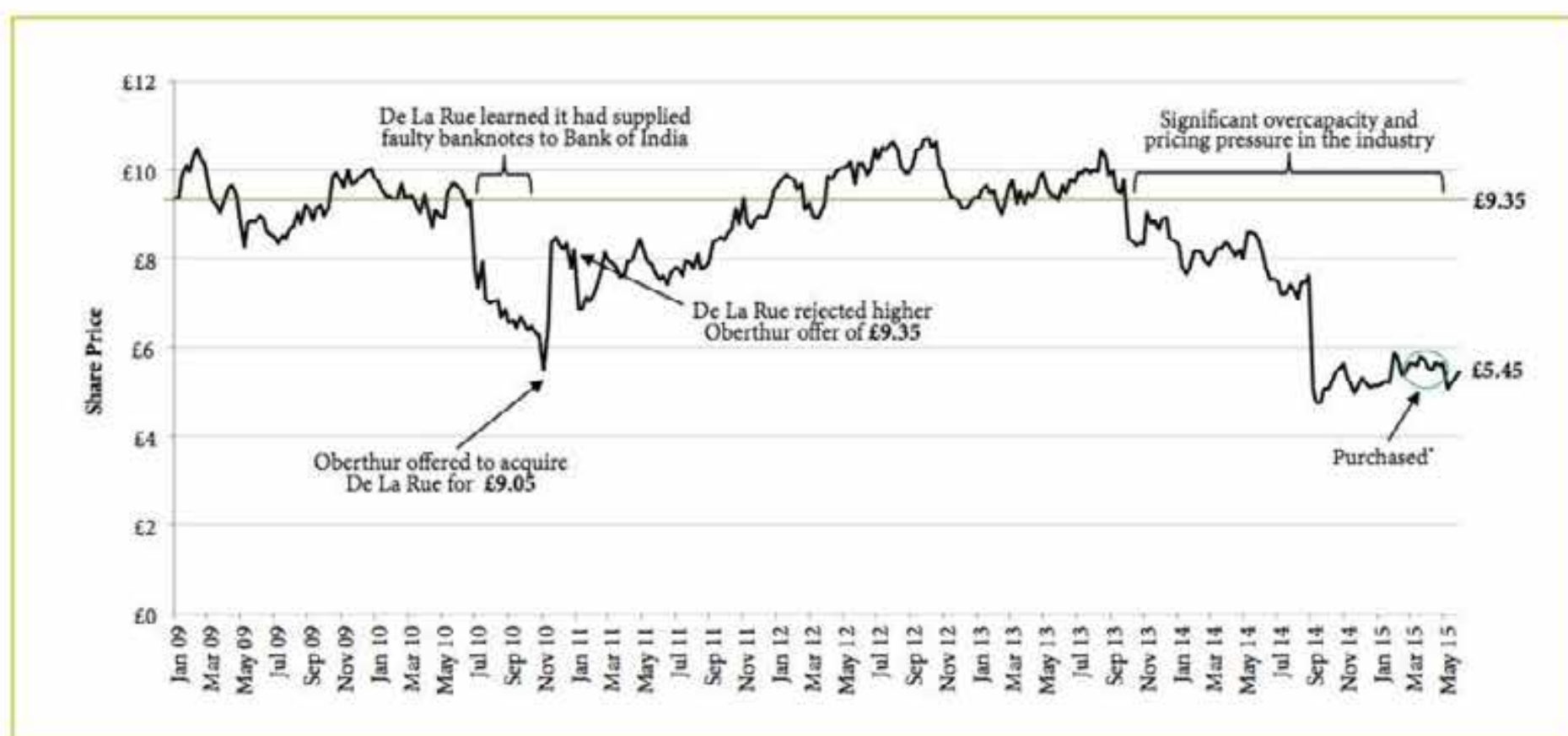
Many countries choose to employ state-owned agencies to undertake the task of developing and printing documents of national significance

State-owned print works account for around 85% of the 150 billion banknotes produced each year*

In recent years some state-owned printers have become increasingly active on the global banknote market, while some have/announced the end of production

DE LA RUE: 56% SHARE PRICE DECLINE IN 2 YEARS

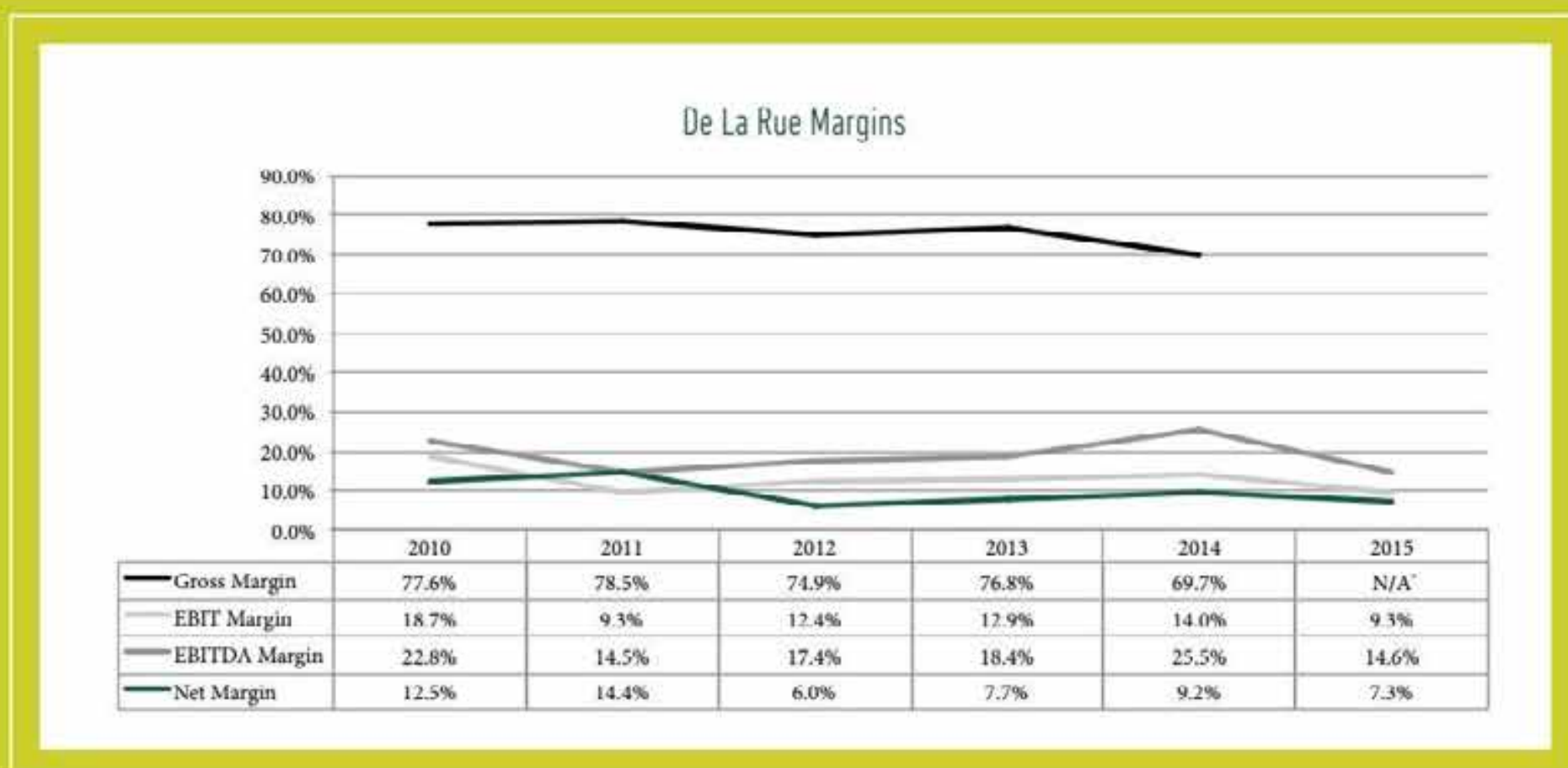
- Recent overcapacity in the banknote industry, caused by increased longevity of banknotes and state-owned suppliers entering the commercial market is creating a very challenging operating environment for commercial printers like De La Rue. Its share price has declined more than 56% in two years, from £10.72 on 26/10/12 to £4.75 on 10/10/2014.
- We noted how far the price had declined below a rejected 2011 takeover price of £9.35, and initiated research. We later initiated our position within the Elevation Capital Value Fund during February 2015. Our average cost is £5.59* per share.
- Current share price** = £5.45 (Market Capitalisation = £551.2M)



* FOR ELEVATION CAPITAL VALUE FUND (ONLY) - AS AT 31 MAY 2015. ELEVATION CAPITAL SEPARATE ACCOUNTS PURCHASED THE STOCK BETWEEN £ 5.05 - £ 5.64 DURING THE PERIOD 4 MARCH 2015 - 31 MAY 2015
 ** AS AT 22 JUNE 2015

DE LA RUE: OVERCAPACITY LEADS TO SIGNIFICANT MARGIN PRESSURE

- The rosy industry outlook in FY2014 (significantly improved margins) in the currency printing business been replaced by fierce competition in FY2015, which caused margins to contract significantly.
- The reported large discount offered by the Company to renew the Bank of England contract is one example of the result of overcapacity in the industry.
- Investors are worried that this industry-wide overcapacity is putting pressure on margins on a longer term basis.



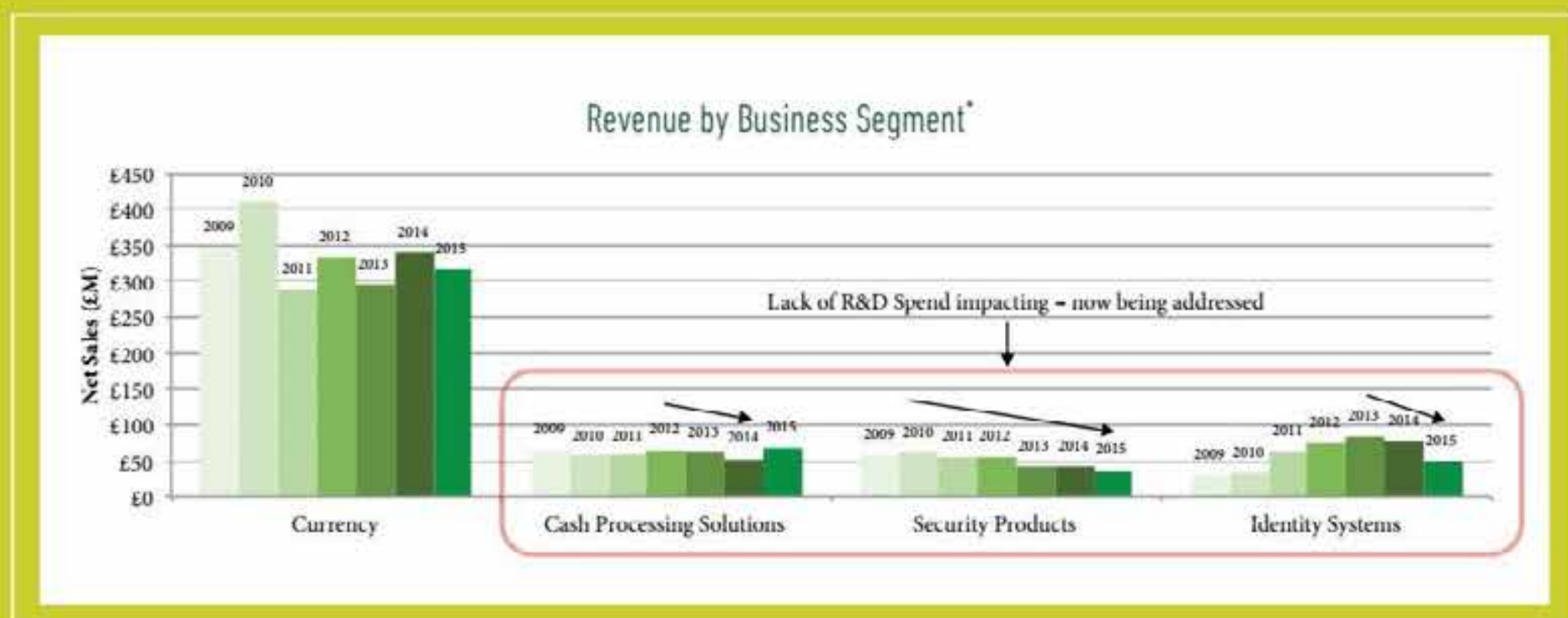
DATA SOURCE: THOMSON REUTERS EIKON

* NOT AVAILABLE IN DE LA RUE 2015 PRELIMINARY RESULTS ANNOUNCEMENT - 28 MAY 2015

DE LA RUE: RECENT UNDERINVESTMENT IN R&D RECTIFIED

We visited De La Rue in June 2015 and raised questions with regard to the future growth opportunity and the Company's diversification efforts, especially after observing the continued decline in revenue in the Solutions Segment since 2012. Management commented that:

- A significant underinvestment had occurred in R&D over the last five years and this has been reflected in the Security Products and Identity Systems Revenue.
- An important part of the ongoing investment and strategy for the business is to increase R&D spending to rectify its position as a market leader in these segments, re-invigorate market share and in turn, earnings from these segments – they are also less competitive markets and have historically delivered higher margins than the paper segment of the business.



* DATA SOURCE: DE LA RUE ANNUAL REPORTS

DE LA RUE: CAPITAL STRUCTURE & OWNERSHIP

EQUITY

- De La Rue has 101.1 million shares outstanding. Current market capitalisation is £551.2M based on share price of £5.45*.

DEBT

- At the end of FY2015 (31 March 2015), De La Rue had £111M** in net debt, up from £90M as at the end of FY2014 (31 March 2014). This reflects reduced operating cash flow, continued capex, special pension contributions and dividend payments.

CONCENTRATED OWNERSHIP AND POTENTIAL SHAREHOLDER ACTIVISM

- The top 10 investors (made up of large asset managers) own a combined 46.9% of the Company.
- We suggest that shareholder activism is possible and may force improved shareholders return.

TOP 10 INVESTORS**

M & G INVESTMENT MANAGEMENT LTD.	8.3%
FRANKLIN TEMPLETON INVESTMENT MANAGEMENT LTD.	5.7%
SCHRODER INVESTMENT MANAGEMENT LTD.	5.4%
JUPITER ASSET MANAGEMENT LTD.	5.1%
MONDRIAN INVESTMENT PARTNERS LTD.	4.8%
COLUMBIA THREADNEEDLE INVESTMENTS (UK)	4.6%
BLACKROCK ADVISORS (UK) LTD.	4.1%
NORDEA INVESTMENT FUNDS SA	3.1%
EUROPEAN VALUE PARTNERS ADVISORS SARL	3.0%
KAMES CAPITAL	2.9%

TOP TEN INVESTORS 46.9%

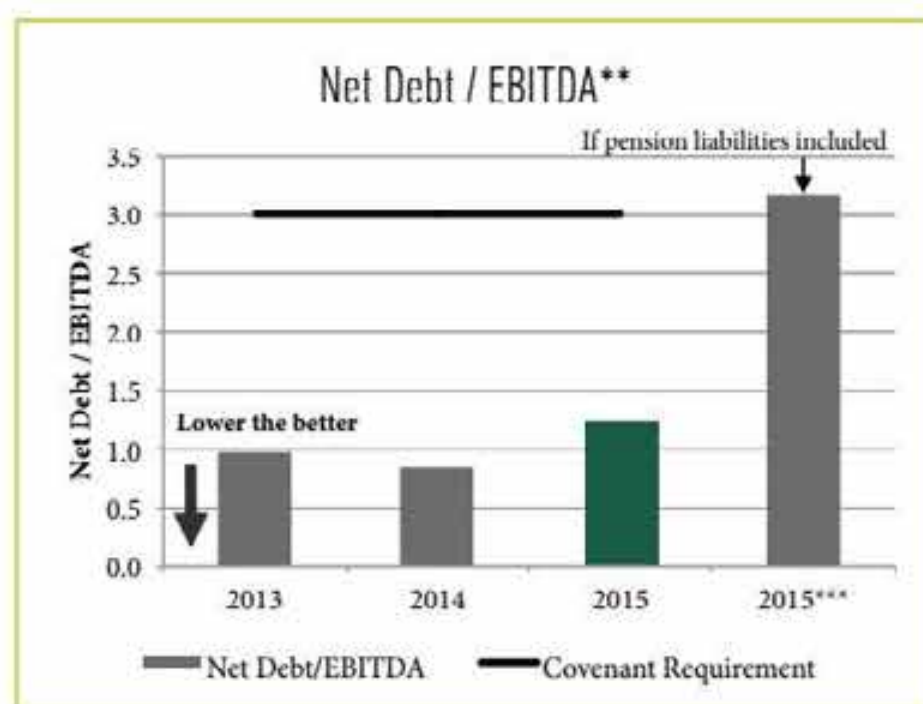
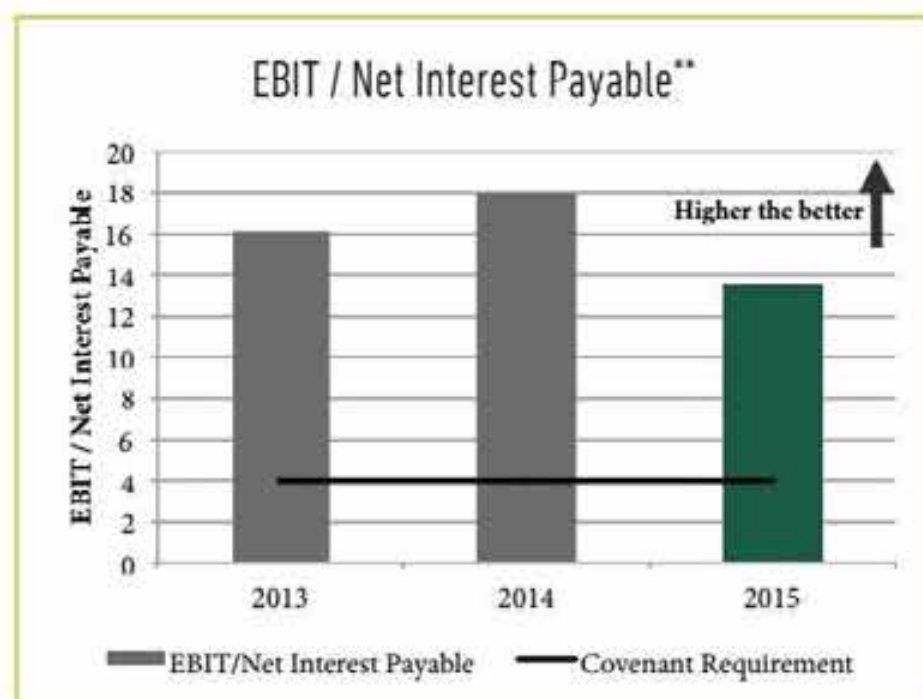
* AS AT 22 JUNE 2015

** AS AT 31 MARCH 2015

*** DATA SOURCE: THOMSON REUTERS EIKON AS AT 11 JUNE 2015

DE LA RUE: FINANCIAL LEVERAGE

- The main debt instrument that De La Rue uses is a revolving credit facility of £250M (£142M drawn) that expires in December 2019. The covenants require that:
 - EBIT/Net Interest Payable > 4.0x (Currently 13.5x*)
 - Net Debt / EBITDA < 3x (Currently 1.23x*, accounting for pension shortfall this increases to 3.16x)
- Currently, the Company is still well within the covenant requirements. However, the ratios are moving in the wrong direction due to weaker earnings, increased investment in R&D and borrowings (FY2015 Net debt of £111M vs £89.9 in FY2014)
- We do not view the covenants, or debt levels generally, as a significant threat to the business in the short term. However, we believe Management should focus on debt reduction and cost control in the medium term



* DE LA RUE 2015 PRELIMINARY RESULTS ANNOUNCEMENT – 28 MAY 2015

** DE LA RUE ANNUAL REPORTS FROM 2013, 2014 AND 2015 PRELIMINARY RESULTS ANNOUNCEMENT

*** ADJUSTED TO INCLUDE PENSION LIABILITIES

DE LA RUE: FINANCIAL LEVERAGE - PENSION DEFICIT AND FUNDING (1)

- In 2010, De La Rue announced that it would be moving its employees from final salary to defined contribution pension schemes from the date April 1, 2013. The net effect is that the retirement fund of employees is determined by the performance of the investments rather than their pay. Pensions earned up to the date of the transfer (01/04/2013) were protected. This was done in response to the increasing size of the pension deficit and it followed similar moves by a number of British companies including WH Smith, Barclay's and Rentokil among others
- De La Rue has pension liabilities of ~£237M which are currently underfunded. When Oberthur made its original bid for the business in 2010, De La Rue's pension liabilities were only ~£120M
- We believe De La Rue's strategy for paying back the pension deficit is manageable and realistic. The headline figure of £237M overstates the extent of the liability and rising interest rates will have a significant positive impact on the deficit
- Martin Weale, one of the more hawkish members of Bank of England's Monetary Policy Committee commented to Financial Times on 23 June 2015 that the Bank of England should be ready to raise borrowing costs as early as August 2015*
- A new formal (triennial) funding valuation of the UK defined benefit pension scheme as at 5 April 2015 has commenced

The Telegraph

Home Video News World Sport Finance Comment Culture Travel Life Women
Companies Comment Personal Finance ISAs Economy Markets Property Enterprise Fin

HOME - FINANCE - BANK OF ENGLAND

Roaring pay growth could force Bank of England to raise interest rates

British wages may be rising even faster than official data show

49 0 25 04 Email



The Bank of England could raise its interest rates before the end of the year. Photo: Simon Dawson/Bloomberg



* [HTTP://WWW.FT.COM/INTL/CMS/S/0/696EE142-19C2-11E5-8201-CBDB03D71480.HTML](http://www.ft.com/intl/cms/s/0/696EE142-19C2-11E5-8201-CBDB03D71480.html)

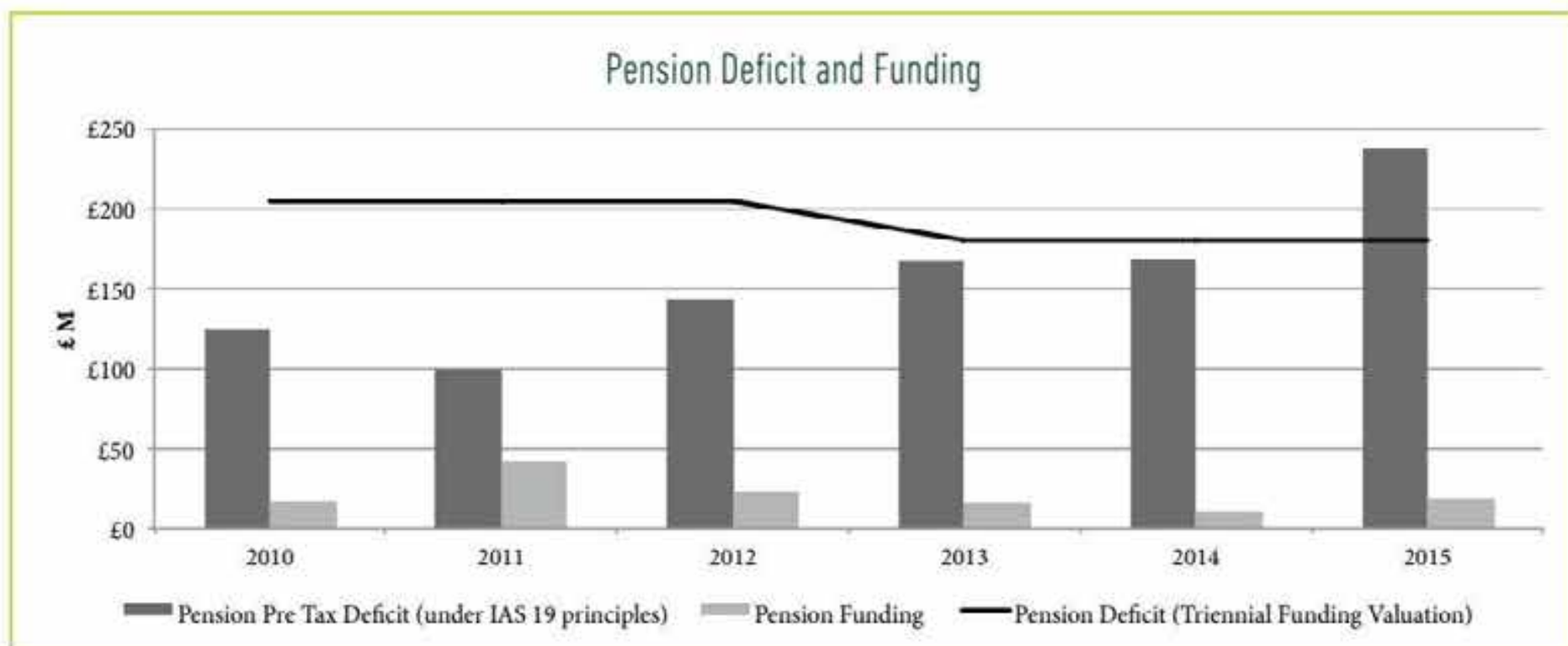
DE LA RUE: FINANCIAL LEVERAGE - PENSION DEFICIT AND FUNDING (2)

From the Company's FY2015 Preliminary Results Announcement made on 28 May 2015:

“The special funding arrangements, agreed in 2012, remain unchanged and are aimed to eliminate the deficit by 2022.”

The valuation of the pension scheme under IAS 19 principles indicates a pre-tax scheme deficit at 28 March 2015 of £236.7m (29 March 2014: £168.0m). The increase of £68.7m is largely a reflection of the significant decrease in the discount rate used to project the value of the scheme liabilities (3.2 per cent in 2014/15 compared with 4.5 per cent in the prior year). The increase has been partly mitigated by a reduction in the RPI inflation rate, returns on scheme assets and Group funding contributions.

In common with other final salary schemes, the scheme valuation is very sensitive to any movement in the discount rate, with a 0.25 per cent increase in discount rate resulting in a £56m decrease in liabilities or vice versa, and hence the deficit would reduce should interest and discount rates increase in the future.”



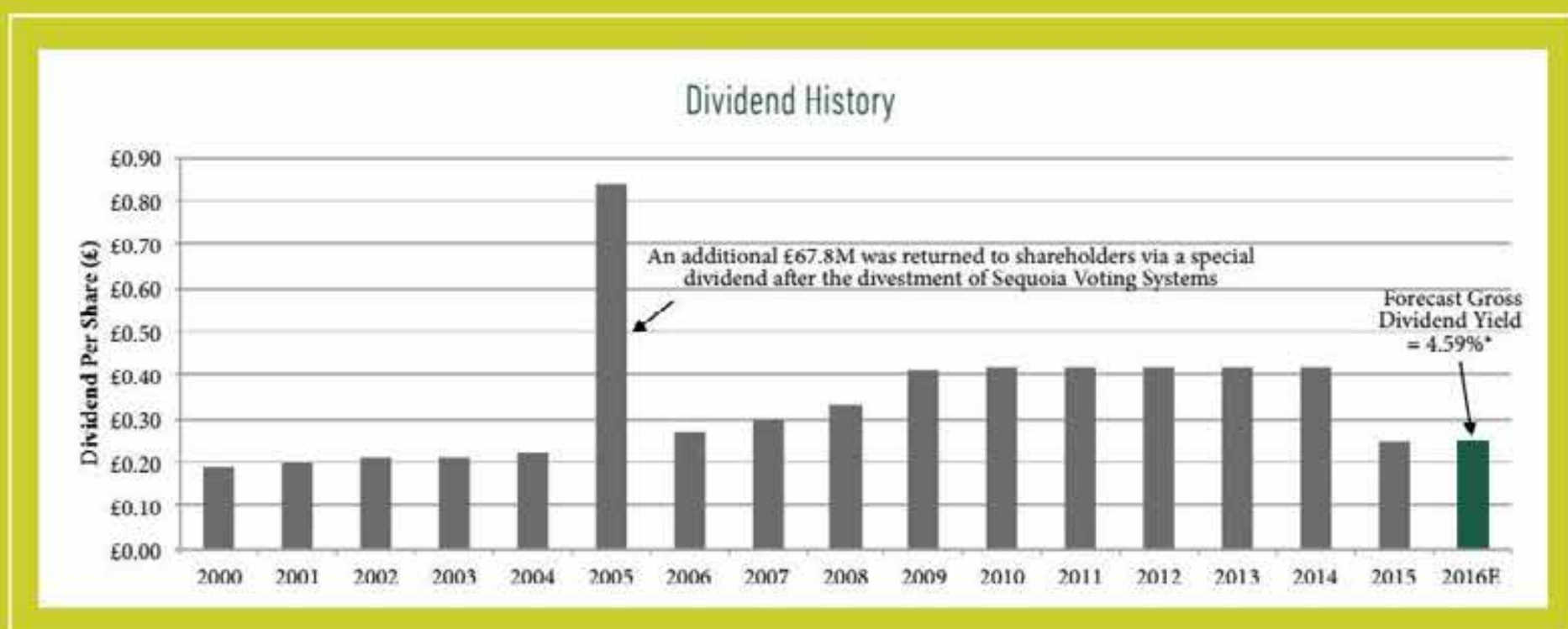
DE LA RUE: CONSISTENT CAPITAL RETURNS HISTORY

DIVIDENDS

- De La Rue has been consistent in returning surplus capital to shareholders (via dividends or other means).
- Due to the difficult trading environment, the Company reduced dividends from £0.423 per share in FY2014 to £0.25 per share in FY2015.
- Management now seeks to maintain dividends at FY2015 level of £0.25 per share in the near future (Forecast Gross Dividend Yield of 4.59%*).

SHARE BUYBACKS

- The Board has the authority to buy back up to 10,074,081 shares in the market (10% of the issued shares).
- No shares have been bought back in recent years*.



* AS AT 22 JUNE 2015

DATA SOURCE: THOMSON REUTERS EIKON/WORLDSCOPE AS AT 11 JUNE 2015

DE LA RUE: CONSISTENT CAPITAL RETURNS HISTORY - EXAMPLE

2008 CAPITAL RETURN VIA B SHARE SCHEME/DEFERRED SHARES

In 2008, the Company used a relatively complex scheme (combination of B share scheme and deferred shares) to return ~£460M of surplus capital to shareholders after the sale of its Cash Systems to The Carlyle Group. The capital return was structured for the following reasons:

- To provide shareholders a choice between receiving the cash in the form of income or capital
- To reduce the number of shares such that the share price of one new ordinary share approximated the share price of one existing ordinary share

Return of Cash - Posting of Circular

21 Oct 2008

De La Rue announces that it is today posting a circular (the "Circular") to its shareholders and convening an Extraordinary General Meeting, to be held on 14 November 2008, to obtain shareholder approval for the proposed return of £459.8m cash to shareholders.

On 16 June 2008 the Company announced that it had entered into a conditional agreement for the sale of its Cash Systems business (excluding those activities relating to banknote sorters, the Cash Processing Solutions Division) to The Carlyle Group for a total cash consideration of £360m on a cash and debt free basis, subject to adjustment for a normalised level of working capital. On 1 September 2008, the Company announced the completion of the sale.

The Return of Cash is being made using a B share scheme which gives certain shareholders a choice between receiving the cash in the form of income or capital. The return will be accompanied by a proportional share consolidation to maintain comparability of the share price, earnings per share, dividend per share and other per share data. Further details are set out below.

Highlights of the Return of Cash:

- Shareholders to receive 305 pence in cash per existing ordinary share.
- Return to be implemented by way of a B share issue which provides certain shareholders with flexibility to elect to receive cash in the form of income or capital or a combination of the two.
- 25 for 39 share consolidation to seek to maintain comparability of share price, earnings per share and dividend per share.
- Extraordinary General Meeting to approve the proposed Return of Cash at 10.30am on 14 November 2008.
- Last date for election of the capital option 1.00pm on 21 November 2008.
- Cheques expected to be dispatched to shareholders and CREST accounts credited on 28 November 2008.

Details of the Return of Cash:

Subject to shareholder approval and listing of the B shares, shareholders will receive one B share for every existing ordinary share that they hold on 14 November 2008. Shareholders (other than those in the United States, Canada, Australia, Japan or the Republic of South Africa) will be able to elect between the following choices in respect of those B shares:

- To receive a single dividend of 305 pence per B share for some or all of their B shares. B shares in respect of which a shareholder has chosen to receive this single dividend payment will automatically be converted into deferred shares, which will have negligible value.
- To accept an offer by JPMorgan Cazenove Limited ("JPMorgan Cazenove") to sell some or all of their B shares to JPMorgan Cazenove (acting as principal) for 305 pence per B share, free of all dealing expenses and commissions, on 25 November 2008 (or such later date as the Company and JPMorgan Cazenove may agree) (the "Purchase Offer"). Further details of the Purchase Offer are contained within the Circular.

The B shares will be admitted to trading on the London Stock Exchange's main market for listed securities and admitted to the Official List of the UK Listing Authority. Shareholders who do not elect, or who are not eligible to elect, for any of the B share alternatives will receive the single dividend of 305 pence per B share on all of their B shares, subject to such dividend being declared.

A share consolidation will take place in conjunction with the Return of Cash. Existing ordinary shares will be subdivided and consolidated so that shareholders receive 25 New Ordinary Shares (subject to fractional entitlements) for every 39 existing ordinary shares held on 14 November 2008. The intention is that, subject to market movements, the share price of one New Ordinary Share immediately after listing should be approximately equal to the share price of one existing ordinary share immediately beforehand. The effect of the share consolidation will be to reduce the number of issued ordinary shares to reflect the return of 305 pence per ordinary share, but shareholders will own the same proportion of De La Rue issued share capital immediately following the consolidation as they did previously (subject to fractional entitlements). The ratio used for the share consolidation has been set by reference to De La Rue's market capitalisation at close of business on 20 October 2007.

The New Ordinary Shares will be traded on the London Stock Exchange in the same way as existing ordinary shares and will be equivalent to the existing ordinary shares in all material respects, including their dividend, voting and other rights.

DE LA RUE: SUPERIOR BUSINESS VERSUS SELECTED LISTED PEERS

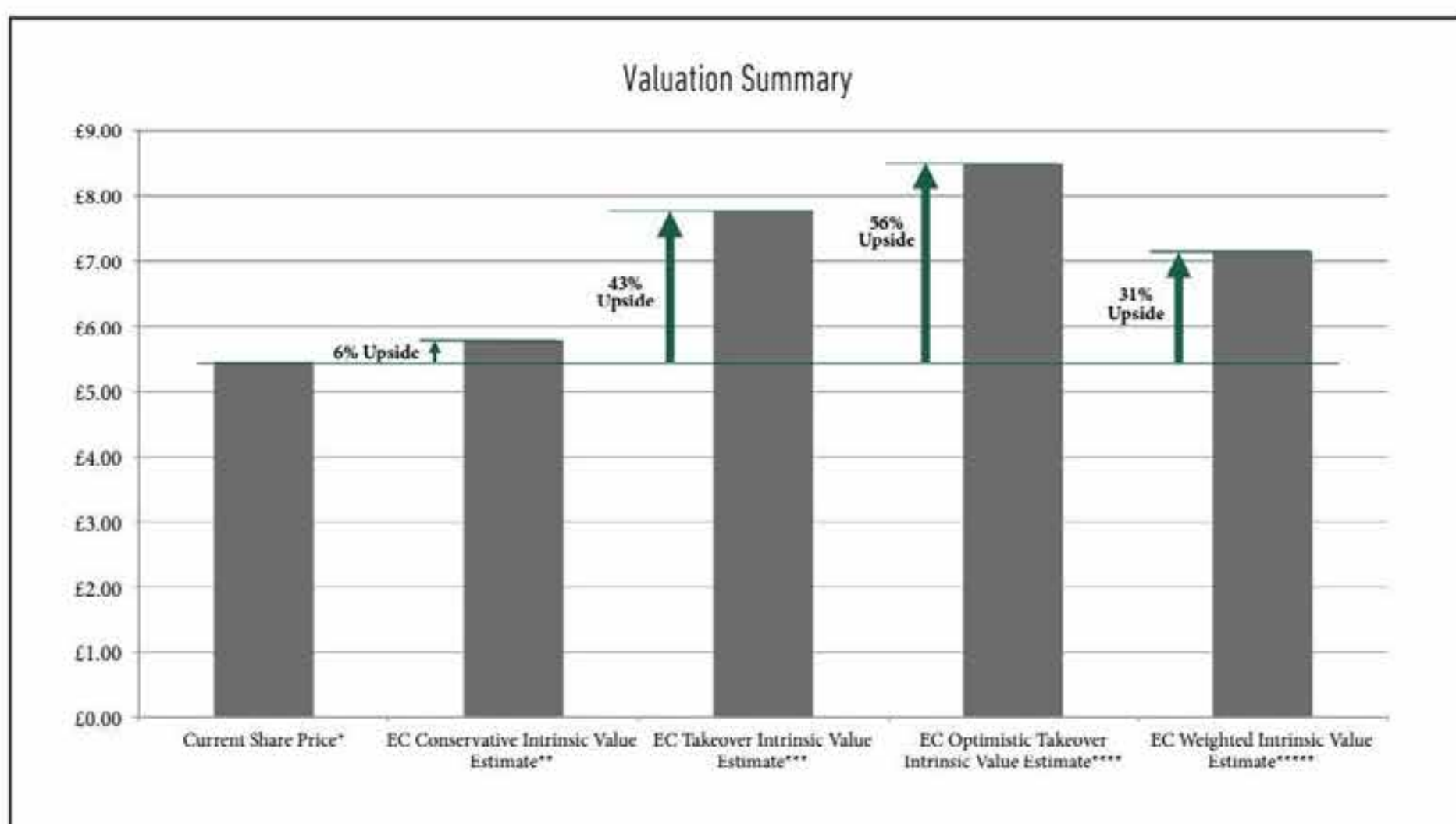
- De La Rue operates in a specialist industry and listed peers are few.
- Accordingly, the listed company peer list for De La Rue is less relevant than for other businesses in which one can draw a more direct comparison.
- In this case we assess De La Rue against companies which have similar characteristics but which do not operate in the same industry. The intention is to provide an overview of the trading multiples and margins of a small cross section of public companies in the technology, security and printing industries.
- De La Rue is trading at a premium to the selected companies, as it is clearly a superior business with higher margins.

	Peer Group									
	Market Cap (USD)	TTM P/E	NTM P/E	Price/Sales	EV/NTM EBITDA	Price/Book	Dividend Yield	Net Profit Margin	EBITDA Margin	EBIT Margin
Communis PLC	157M	17.5x	9.4x	0.29x	4.3x	0.8x	4.51%	-4.4%	7.7%	4.4%
DS Smith PLC	5,704M	21.4x	14.8x	0.92x	8.9x	3.2x	3.06%	3.5%	10.7%	6.3%
Elanders AB	135M	11.5x	6.9x	0.28x	4.2x	0.8x	2.53%	2.4%	8.9%	5.7%
G4S PLC	6,987M	49.4x	17.3x	0.64x	9.8x	4.7x	3.60%	1.3%	7.5%	4.7%
Laird PLC	1,605M	20.4x	15.9x	1.80x	10.6x	2.3x	3.66%	8.9%	13.9%	10.2%
Regus	3,859M	36.7x	21.3x	1.46x	8.4x	4.6x	1.54%	4.2%	13.3%	6.1%
RPC Group	2,708M	32.5x	14.1x	1.40x	8.2x	3.0x	2.62%	3.7%	15.8%	10.9%
ST Ives	376M	51.9x	9.0x	0.70x	6.4x	1.9x	4.40%	3.2%	13.2%	8.8%
Median Average	2,156M	27.0x	14.4x	0.81x	8.3x	2.6x	3.33%	3.4%	11.9%	6.2%
De La Rue PLC	864M	16.2x	15.2x	1.16x	9.3x	n/a	4.59%	7.3%	20.0%	14.7%

DE LA RUE: ELEVATION CAPITAL'S VALUATION RANGE

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:
£5.78 - £8.47
PER SHARE

UPSIDE POTENTIAL
RANGE:
+6% - +56%



* DE LA RUE SHARE PRICE AS AT 22 JUNE 2015

** CONSERVATIVE INTRINSIC VALUE ESTIMATE BASED ON DE LA RUE 10YR AVERAGE EV/EBITDA MULTIPLE OF 7.44X (USING FY2015 NORMALISED EBITDA)

*** TAKEOVER INTRINSIC VALUE ESTIMATE BASED ON 2010 OBERTHUR INITIAL OFFERED PRICE, TRANSLATED TO AN EV/EBITDA MULTIPLE OF 9.56X (USING FY2015 NORMALISED EBITDA)

**** OPTIMISTIC TAKEOVER INTRINSIC VALUE ESTIMATE BASED ON 2010 OBERTHUR FINAL OFFERED PRICE, TRANSLATED TO AN EV/EBITDA MULTIPLE OF 10.33X (USING FY2015 NORMALISED EBITDA)

***** BASED ON A 50% WEIGHT OF THE FOLLOWING TWO ESTIMATES: £5.78 FOR EC CONSERVATIVE INTRINSIC VALUE ESTIMATE, AND £8.47 FOR EC OPTIMISTIC TAKEOVER INTRINSIC VALUE ESTIMATE

***** SOURCE: THOMSON REUTERS EIKON, AS AT 22 JUNE 2015 (STARMINE IS A PROPRIETARY RESEARCH TOOL OWNED BY THOMSON REUTERS. THE STARMINE INTRINSIC VALUE ESTIMATE IS BASED ON EPS PROJECTIONS FROM THE STARMINE SMARTGROWTH MODEL)

DE LA RUE: KEY OPPORTUNITIES

TAKEOVER

- The most clear and present opportunity for an investment in De La Rue is a takeover situation. An offer from Oberthur forms a large part of our valuation and we perceive a high probability of an offer being presented. Having assessed operational and governance changes to both De La Rue and Oberthur since the last takeover attempt, we believe that De La Rue remains a desirable takeover target for Oberthur and Oberthur remains in a position to finance a takeover. Based on the valuation multiple from Oberthur's previous acquisition attempt, we value De La Rue conservatively at £7.76 and optimistically at £8.47.



The failed attempt by Oberthur to acquire De La Rue in 2010 for £9.35 makes it the top potential acquirer of the Company. The potential hurdle is whether the UK would allow De La Rue to be sold to an overseas buyer



Giesecke & Devrient
Creating Confidence.

G&D is also a logical buyer, with 48% of its revenue derived from its banknote business. Potential hurdle is whether the UK would allow De La Rue to be sold to an overseas buyer

PRIVATE EQUITY

THE CARLYLE GROUP
GLOBAL ALTERNATIVE ASSET MANAGEMENT

BainCapital

KKR

Private equity groups Carlyle Group, KKR, Bain Capital (and the German company Wincor Nixdorf) were named potential bidders for De La Rue's Cash Systems business in 2008. Eventually Carlyle emerged as the top bidder, paying £360M in a leveraged buyout. We suggest that one of the private equity players could team up with one of the industry players to jointly bid for De La Rue, similar to what was speculated in 2010 with Oberthur and Bain Capital



G4S plc is the world's largest security company that is based in the UK. Its recent failed attempt to jointly bid to print British banknotes with Oberthur suggests the possibility for G4S to acquire De La Rue to expand its Cash Solutions and Security Systems and Technology segments.

BainCapital

Oberthur had reportedly sought financial support from Bain Capital in its 2010 failed acquisition attempt of De La Rue. It was reported that Bain Capital would only support the deal if it had the approval of the De La Rue board

DE LA RUE: KEY OPPORTUNITIES (2)

NEW CONTRACTS

- The turbulent situation in Europe (with reference to the ongoing possibility of a Greek default and exit from the Euro Zone), can be regarded as a positive for De La Rue. The company operates in a competitive environment in which it must fight hard for contracts, however, as the largest private operator in the currency printing market, it is in a strong position to receive new contracts as they become available. Any printing of Drachma's or any other currencies will have been done covertly and De La Rue has historically been tight lipped about disclosing clients. However, it is the most likely candidate for such a contract.

DIVIDENDS

- De La Rue management have, to their credit, demonstrated an inclination to return capital to shareholders through dividends. De La Rue shareholders have received a dividend yield of, on average, 4.78% over the last 5 years. They have also historically returned capital to shareholders in the event of divestments, for instance following the 2008 divestment of the Cash Systems segment to Carlyle Group management returned ~£460M to shareholders. Current Forecast Gross Dividend Yield of 4.59%*.

The Telegraph

Home Video News World Sport Finance Comment Culture Travel Life Women
Companies Comment Personal Finance ISAs Economy Markets Property Enterprise

HOME » FINANCE » FINANCIAL CRISIS

De La Rue silent on deal to print Drachma

De La Rue, the money printer, failed to dampen speculation that it has been secretly awarded a contract to start printing drachmas the moment Greece is forced out of the euro.

141 0 1 142 Email



A collection of old Greek Drachma and euro notes and coins. Photo: AP



HISTORY IN THE HEADLINES

Woman To Be Featured on Newly Redesigned \$10 Bill, Treasury Announces

JULY 15, 2015 By Bryton Holland



* AS AT 22 JUNE 2015

DE LA RUE: KEY OPPORTUNITIES (3)

R&D BENEFITS

- We believe the Management had made the correct recent decision to increase R&D spending to rectify its position as a market leader in its solution segments and re-invigorate market share and earnings from these segments. We foresee an improvement in overall margins due to these solution segments are in less competitive markets and have historically higher margins than the paper segment of the business.

NEW MANAGEMENT

- Simply put, De La Rue requires new management to deliver. Since mid-2012, shareholders have received a return of - 48% (excluding dividends). Before this, management turned down a bid of £9.35 - even refusing to engage the bidders. Given the current share price of £5.45* (admittedly with the benefit of hindsight), the decision to rebuff the bid now seems hard to justify. An increase in efficiency and an increase in margins is required and management's historical performance in this area makes it ripe for activism.

EMERGING MARKETS

- With declining cash usage in a number of developed markets, emerging markets are a key to growth in the currency and security printing industry as well as anti-counterfeiting consultancy which De La Rue is seeking to expand. De La Rue has recently finished designing and producing new banknotes for Fiji and was contracted to design and manufacture the currency of the newest country in the world, South Sudan, when it was formed in 2011.



* AS AT 22 JUNE 2015

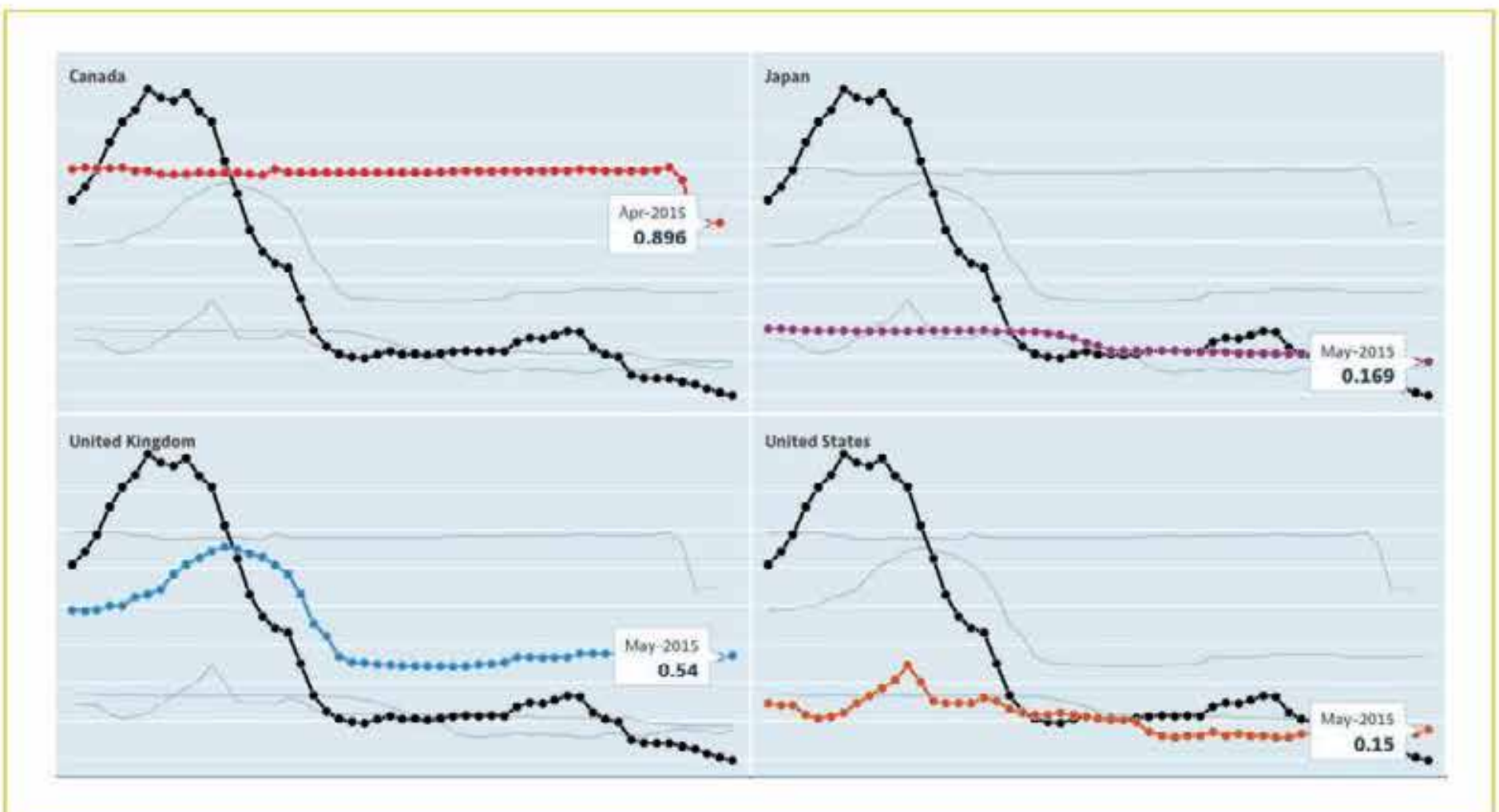
DE LA RUE: KEY RISKS (1)

COMPETITION RISKS

- De La Rue operates in competitive markets and its products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of customers.
- Technological revolution or failure to innovate may result in loss of market share and lower margins. This competition may drive the consolidation which ends in De La Rue being acquired by Oberthur (the optimal outcome for shareholders). However, in the meantime it reduces the tender prices and profitability of new contracts .

PENSION/RETIREMENT BENEFIT OBLIGATIONS

- We believe De La Rue's strategy for paying back the pension deficit is manageable and realistic. The headline figure of £237M overstates the extent of the liability and rising interest rates will have a significant positive impact on the deficit.



Short-term interest rates (% per annum, Jan/11 - May/15) of Canada, Japan, UK, US and Euro Area (black line) - Source: OECD

DE LA RUE: KEY RISKS (2)

CONTRACT ATTRITION

- The timing of contract awards can be uncertain. Delays in awards may result in volatility in the order book and the operating performance and failure to optimise capacity. Political factors can also delay government procurement decisions for sensitive products like banknotes and passports. Failure to win or renew a material contract could restrict growth opportunities and/or have an adverse impact on the Group's financial performance and reputation. However, although De La Rue has some contracts which we would consider to be important to its ongoing success (such as the contracts to produce both the British passport and the British pound), none of De La Rues contracts were worth more than 10% in terms of revenue for the 2013/14 year.

REPUTATION RISKS

- There is potential for reputational and financial damage in the event of the loss of materials from a manufacturing site or as a result of negligence or theft. For example, the production of defective currency or machinery, or the loss of product in transit may result in reputation damage for De La Rue and The Group may be contractually liable for any losses. The consequences of such an outcome became apparent in 2010, when defective currency was sent to a client believed to be the Bank of India. As a consequence, De La Rue's share price fell approximately 50% and management announced a program to improve quality and production capacity, increasing capital expenditure.

REDUCING CASH USE

- Society is increasingly using cards for transactions and carrying less cash. In a decade it's possible that even cards will be obsolete, as smartphones are being explored as a means of payment. However, cash is still popular in emerging markets (which De La Rue has increasingly targeted), representing an opportunity in these regions.



DE LA RUE: ELEVATION CAPITAL CONCLUSION

CONCLUSION

- De La Rue operates in a niche industry and is renowned as a world leader in its field.
- Recent share price weakness has presented the opportunity to acquire a fractional interest in the Company at what we believe is a discount to our intrinsic value estimates, particularly in a takeover scenario which should not be dismissed.
- De La Rue pays an attractive dividend which has yielded for shareholders an average of 4.78% over the last 5 years (Forecast Gross Dividend Yield of 4.59%*).
- De La Rue has moderate debt levels at 1.23x Net Debt/EBITDA (accounting for pension shortfall this increases to 3.16x).
- De La Rue has a number of high value contracts (in particular those to design and print the British pound and the British passport).
- Demise of currencies is overblown and fraud protection systems will be very important in both currency & passports – so fundamentally it is still an attractive business.
- Recent decision to increase investment in R&D spending will likely improve margins and revenue in the long run.
- The most attractive aspect of De La Rue is the likelihood that it will be acquired. The very competitive forces which have obliged De La Rue to lower prices and compress margins are likely to be the driver of industry consolidation which will lead to it being acquired in our opinion.



*DLR700 capable of printing
120000 notes per hour.*

* AS AT 22 JUNE 2015

ELEVATION CAPITAL MANAGEMENT LIMITED

MOLSON COORS BREWING CO [TAP:US]

Research Presentation released in March 2015





MOLSON
CANADIAN
REAL PREMIUM LAGER
LAGER DE QUALITE

MOLSON COORS: THE WORLD'S SEVENTH-LARGEST BREWER BY VOLUME



Based in
North America

#7

World's seventh-largest
brewer by 2013 volume*



2005

Molson Coors was formed
in 2005 by the merger of
Molson of Canada, and
Coors of the United States

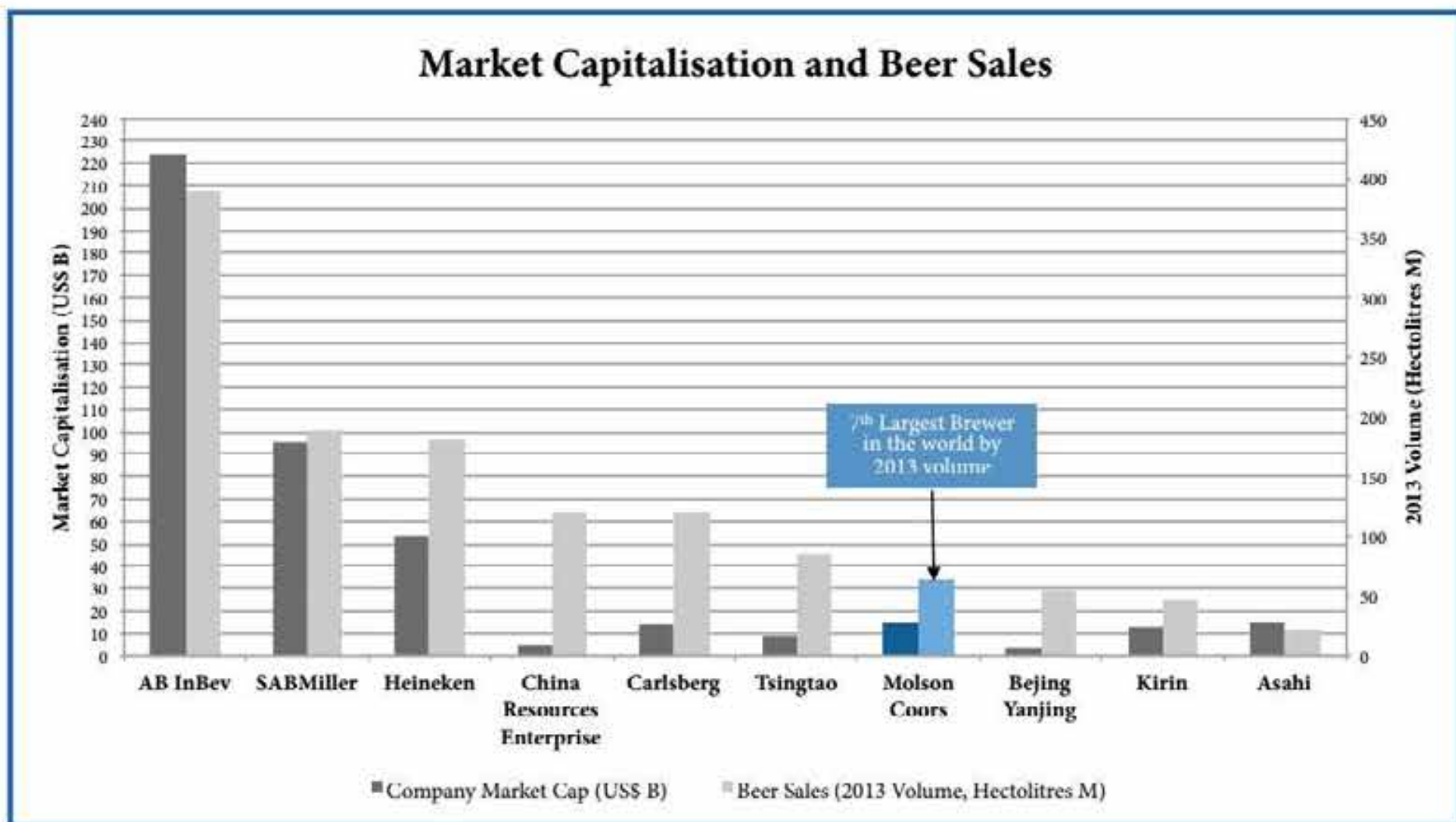
#5

Molson Coors is fifth-largest
by Market Capitalisation
(behind AB InBev, SABMiller,
Heineken & Asahi**)

* SOURCE: EUROMONITOR INTERNATIONAL

** SOURCE: THOMSON REUTERS AS AT 24 FEBRUARY 2015

MOLSON COORS: VS PEERS – MARKET CAPITALISATION AND BEER SALES



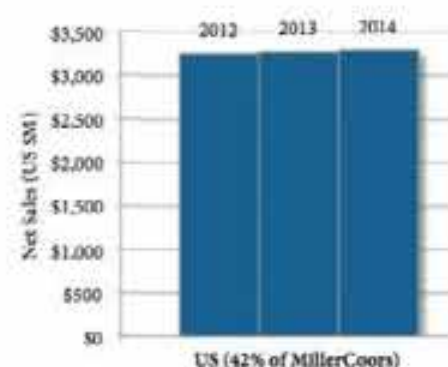
MOLSON COORS: CENTURIES-OLD HERITAGE

Molson Brewery (a subsidiary of Molson Coors) is the second oldest company in Canada...

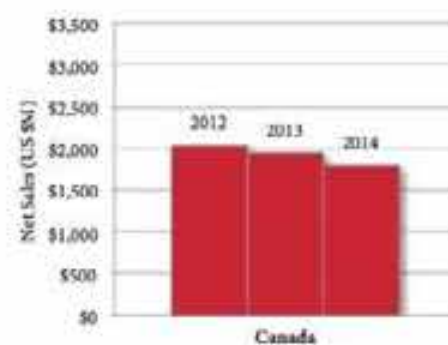
- 
- 1786 John Molson opens the Molson Brewery in Montreal, Canada.
 - 1873 Adolph Coors opens the Golden Brewery in Golden, Colorado.
 - 1945 Molson offers up public ownership in the company.
 - 1975 Coors becomes a publicly traded company.
 - 1989 Molson merges with Carling O'Keefe becoming Canada's largest brewer and the fifth largest brewer in North America.
 - 2002 Coors acquires the England and Wales-based business of Bass Brewers. Creates Coors Brewers, Ltd., the UK's second largest brewer with more than 20% market share.
 - 2005 Molson and Coors combine in a merger of equals, creating the world's fifth largest brewer, with the operating scale and balance sheet to take a leading role in the consolidating global beer industry.
 - 2008 Molson Coors and SABMiller form a joint venture, MillerCoors, that combines their US and Puerto Rico businesses.
 - 2012 Molson Coors acquires StarBev and changes its name to Molson Coors Central Europe.

MOLSON COORS: OPERATES IN FOUR KEY GEOGRAPHICAL MARKETS

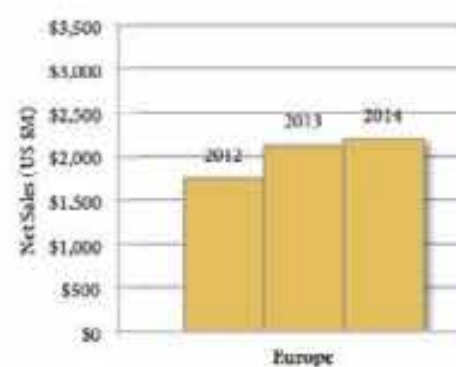
UNITED STATES



CANADA



EUROPE



INTERNATIONAL



MOLSON COORS: STRONG MARKET POSITIONS



The Company's core brands account for nearly

70% OF TOTAL VOLUME:

US

Coors Light (#2), Miller Lite (#4)

CANADA

Coors Light (#2) and Molson Canadian (#3)

UK

Carling (#1)

EUROPE

All of the Company's leading brands across Central Europe are premium, most #1 or #2

Strong positions in

CRAFT & PREMIUM BRANDS:

US

Tenth and Blake is the largest craft brewer (#1)

US

Blue Moon is the largest craft brand (#1)

US

Leinenkugel's the fifth-largest craft brand (#5)

UK

Doom Bar is the largest on-premise cask ale in the UK (#1)

EUROPE

Continued strength of Staropramen across Europe

MOLSON COORS: SIGNATURE BRANDS



Blue Moon
Largest craft brand
in the US



Carling
UK #1



Cobra



Coors Light
US #2
Canada #2



Keystone Light



MGD 64



Miller High Life



Miller Lite
US #4



Molson Canadian
Canada #3



Molson Dry



Molson Export



Molson M



Rickard's Red



Staropramen

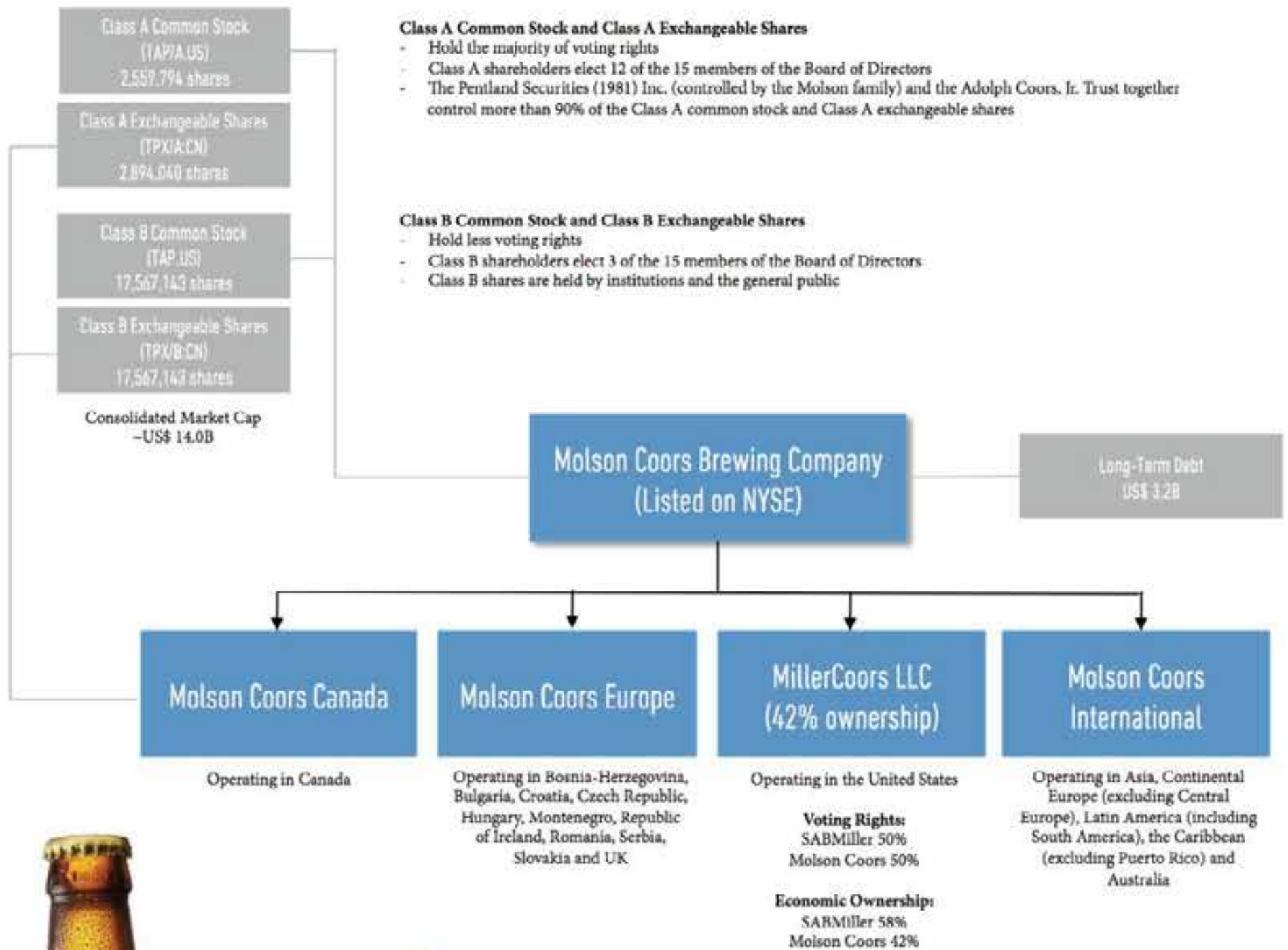


Doom Bar
Largest on-premise
cask ale in the UK

MOLSON COORS: GLOBAL BRAND PORTFOLIO

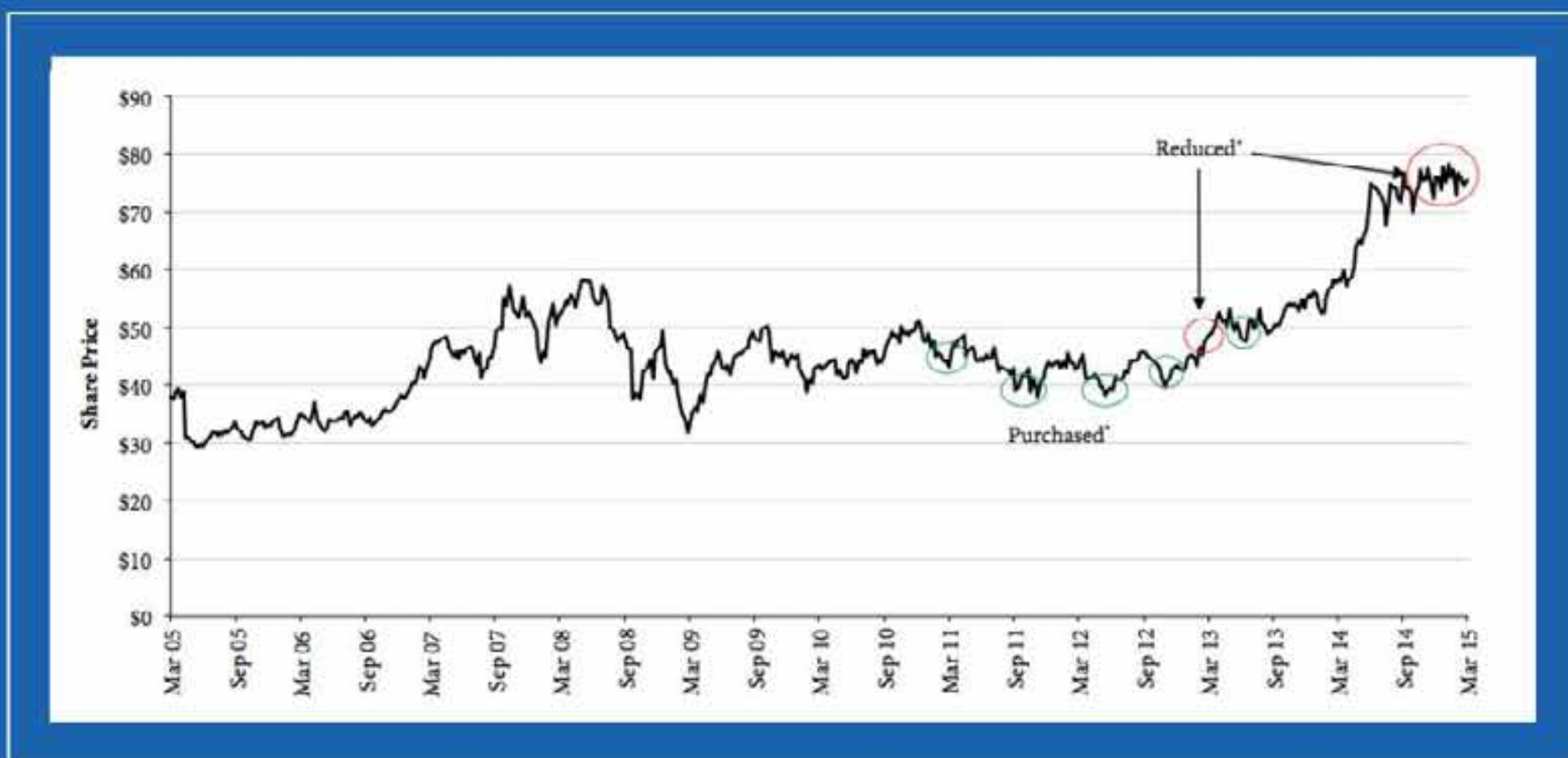
Águila	Cusqueña	Nik Gold
Amstel Light	Doom Bar	Niksicko
Apatinsko	Extra Gold Lager	Niksicko Tamno
Astika	Foster's	Noroc
Astika Dark	George Killian's Irish Red	Ostravar Lager
Bergembier	Granville Island Lager	Ostravar Light
Bergembier Fresh	Grolsch	Ozujsko
Bergembier Non-alcoholic	Hamm's	Ozujsko Cool
Bergembier Unfiltered	Heineken	Ozujsko Grapefruit
Blue Moon	Henry Weinhard's Private Reserve	Peroni Nastro Azzurro
Bohemian	Jelen	Pilsner
Borsodi	Jelen Cool	Pilsner Urquell
Borsodi Bivaly	Jelen Fresh Grapefruit	Red Dog
Borsodi Friss Blackcurrant-lime	Jelen Fresh Lemon	Rickard's Blonde
Borsodi Friss Apple	Jelen Fresh Blackcurrant And Lime	Rickard's Dark
Borsodi Friss Grapefruit	Kamenitza	Rickard's Oakhouse
Borsodi Friss Grapefruit Zero	Kamenitza Fresh Grapefruit	Rickard's Red
Borsodi Friss Lemon	Kamenitza Fresh Lemon	Rickard's White
Borsodi Friss Lemon Zero	Keystone Premium	Sharp's
Borsodi Póló	Leinenkugel's Fireside Nut Brown	Sparks
Borsodi Super Dry	Miller 64	Staropramen
Branik 11	Mickey's	Staropramen 11
Branik Lager	Miller Chill	Staropramen Cool Grep
Branik Light	Miller Genuine Draft	Staropramen Cool Lemon
Burgasko	Miller High Life	Staropramen Dark
Caffrey's	Miller Lite	Staropramen Déčko
Carling	Milwaukee's Best	Staropramen Granát
Carling Zest Summer	Molson Canadian	Staropramen Ležák
Chalky's Bark	Molson Canadian 67	Staropramen Nealko
Chalky's Bite	Molson Canadian 67 Sublime	Staropramen Unfiltered
Cobra	Molson Canadian Light	Steel Reserve High Gravity
King Cobra	Molson Dry	Tomislav
Cobra Zero	Molson Export	Tyskie
Coors Banquet	Molson Golden	Vratislav
Coors Light	Molson Ice	Winterfest
Coors Non-alcoholic	Molson M	Worthington's Creamflow
Creemore Springs	Nik Cool	Worthington's White Shield
Cristal		

MOLSON COORS: HOLDING COMPANY STRUCTURE AND OWNERSHIP



MOLSON COORS: CYCLICAL OR SECULAR?

- In 2011, we observed market pessimism for large beer brewers in North America with statistics showing many beer swiggers had become wine sippers, and emerging competition from craft beer brewers.
- We believed the Company would be able to navigate through difficult domestic market conditions, and at the same time expand its international market and craft beer business through smart acquisitions.
- We initiated our position in the Elevation Capital Value Fund in March 2011, with an average cost of US\$ 40.87 (as at 21 June 2013)(**).
- Current share price (TAP:US)*** = US\$ 75.32 (Market Capitalisation = US\$ 14.0B).



* FOR ELEVATION CAPITAL VALUE FUND (ONLY)

** ELEVATION CAPITAL SEPARATE ACCOUNTS PURCHASED THE STOCK BETWEEN US\$ 40.50 - US\$ 71.49 DURING THE PERIOD 1 APRIL 2013 - 20 OCTOBER 2014

*** AS AT 16 MARCH 2015

MOLSON COORS: VERSUS GLOBAL PEERS

- Molson Coors trades at a slight discount to its global peers in metrics such as NTM P/E, TTM EV/EBITDA and P/B
- More recently, global brewers are trading at higher multiples as M&A activity and industry consolidation are continuing to provide some brewers the opportunity to increase economies-of-scale, gaining access to emerging markets and acquiring popular brands

	Global Peer Group						
	TTM P/E	NTM P/E	Price/Sales	EV/NTM EBITDA	Price/Cash Flow	Price/Book	Dividend Yield
Anadolu Efes	131.0x	26.5x	1.2x	7.6x	7.6x	1.6x	2.4%
Anheuser-Busch Inbev SA	21.7x	21.9x	4.1x	12.3x	13.7x	3.9x	2.6%
Asahi Group Holdings Ltd	25.7x	21.0x	1.0x	10.5x	12.4x	2.0x	1.2%
Carlsberg A/S	20.0x	17.0x	1.4x	9.3x	11.9x	1.7x	1.6%
Carlsberg Brewery Malaysia Bhd	19.5x	18.7x	2.5x	13.7x	17.3x	13.1x	5.3%
Damm SA	19.6x	na	1.7x	na	12.6x	3.2x	2.6%
Diageo PLC	24.6x	18.1x	4.7x	14.9x	22.4x	6.6x	3.0%
Guinness Anchor Bhd	20.6x	18.9x	2.6x	11.4x	15.9x	12.5x	4.4%
Heineken NV	27.9x	21.6x	2.2x	11.1x	13.8x	3.4x	1.5%
Moa Group Ltd	na	na	3.1x	na	na	1.6x	0.0%
SABMiller PLC	24.4x	22.1x	3.9x	15.1x	23.4x	3.4x	2.0%
Tsingtao Brewery Co Ltd	26.4x	23.3x	1.8x	13.3x	15.3x	3.7x	0.9%
Peer Group Median	24.4x	21.3x	2.4x	11.4x	13.8x	3.4x	2.2%
Molson Coors	26.8x	19.0x	3.3x	11.1x	10.8x	1.7x	2.2%

DATA SOURCE: THOMSON REUTERS EIKON AS AT 17 MARCH 2015

MOLSON COORS: GLOBAL BREWING INDUSTRY CONSOLIDATION

- The global brewing industry continues to experience increased merger activity:
 - Heineken's rebuff of SABMiller's buyout offer in September 2014
 - AB InBev reportedly in talks with banks to finance a deal to acquire SABMiller in September 2014
- We have detailed below a sample of M&A transactions since 2008
 - Based on average M&A multiples we believe Molson Coors is worth at least US\$ 93.53 per share in a takeover scenario
- Molson Coors clearly stands to benefit from industry consolidation one way or the other:
 - It may become an acquisition target itself by AB InBev or another large brewer like SABMiller
 - Alternatively, it may acquire additional brands or gain control of key brands if other brewers are forced to divest brands to comply with antitrust regulations (particularly in the US)

Recent Transactions

Transaction	Acquisition Price	EV/EBITDA Multiple
Heineken, Carlsberg acquisition of Scottish and Newcastle (2008)*	US\$ 15.4B	15.3x
Acquisition of Anheuser Busch by InBev (2008)*	US\$ 52B	12.4x
Kirin acquisition of Lion Nathan (2009)*	US\$ 4.5B	12.5x
Kirin acquisition of Schincariol (2011)*	US\$ 5.0B	15.7x
SABMiller acquisition of Foster's Group (2011)*	US\$ 2.1B	13.2x
Heineken acquisition of Asia Pacific Breweries (2012)**	US\$ 5.6B	19.0x
AB InBev acquisition of Oriental Brewery Co (2014)*	US\$ 5.8B	11.6x
Transaction Sample Average:	US\$ 12.9B	14.2x

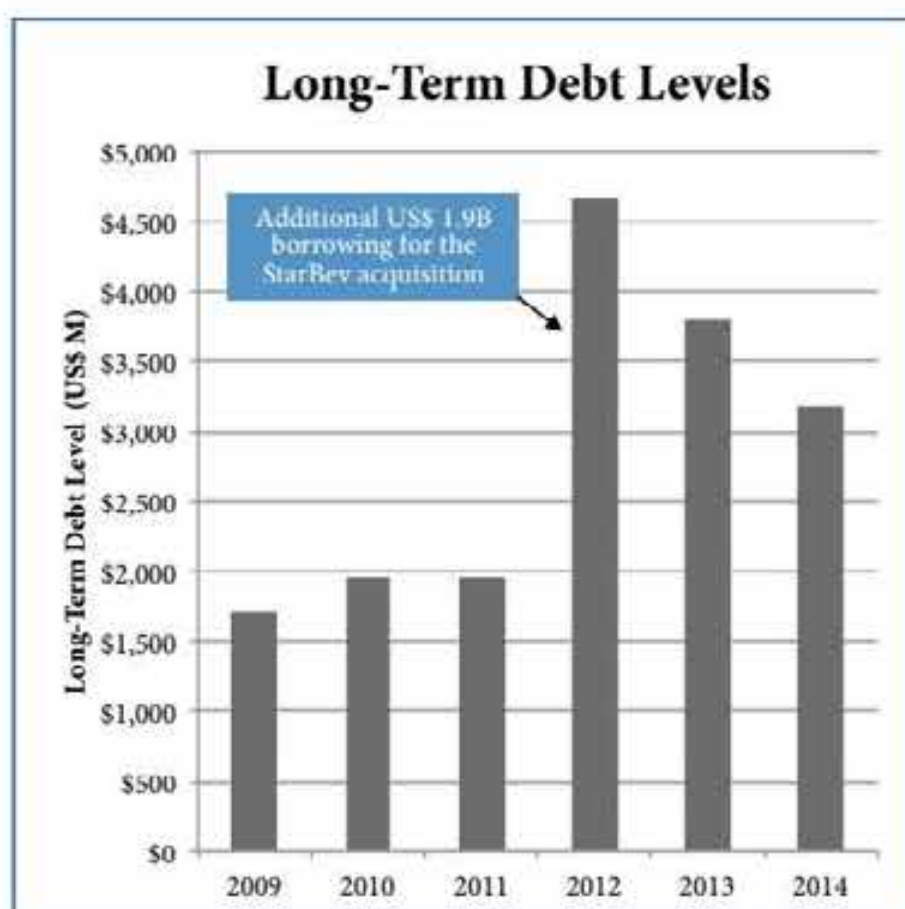
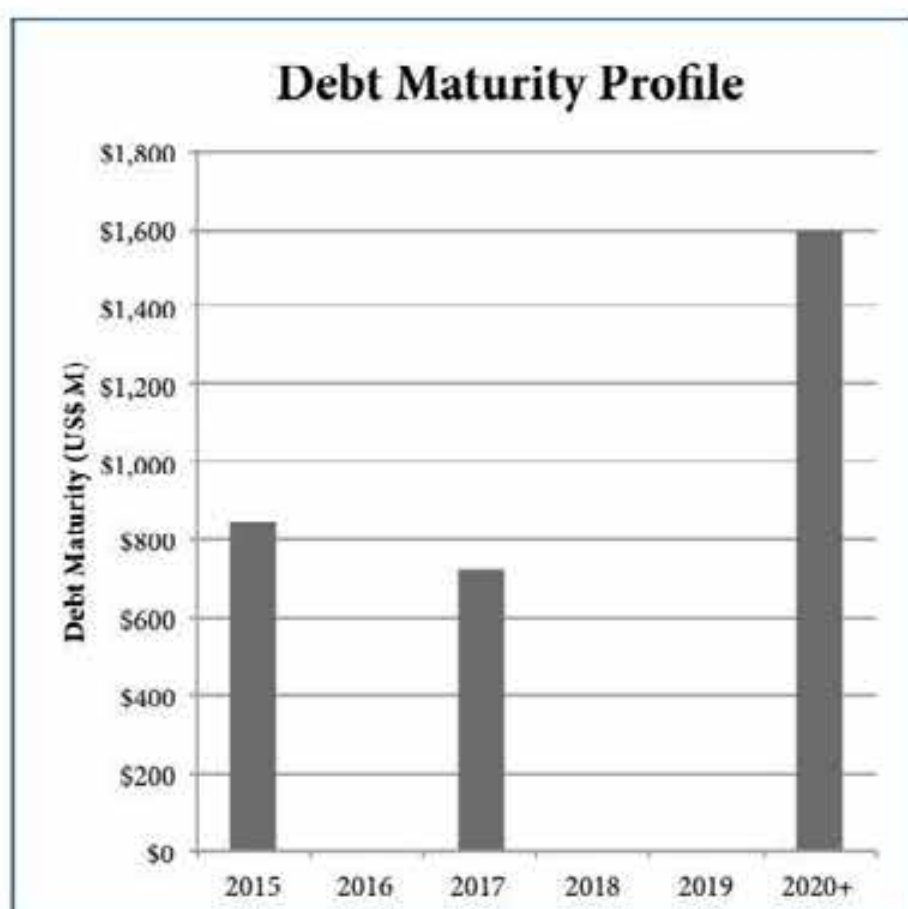


* [HTTP://WWW.JUST-DRINKS.COM/ANALYSIS/JUST-THE-FACTS-BEER-ACQUISITION-MULTIPLES-1999-TO-PRESENT-DAY_ID112531.ASPX](http://www.just-drinks.com/analysis/just-the-facts-beer-acquisition-multiples-1999-to-present-day_id112531.aspx)

** [HTTPS://WWW.SGCIB.COM/EN/ABOUT/DEALS/DEALS-DETAILS/NEWS/ACQUISITION-THE-REMAINING-INTEREST-APB-HEINEKEN/](https://www.sgcib.com/en/about/deals/deals-details/news/acquisition-the-remaining-interest-apb-heineken/)

MOLSON COORS: CONTINUES TO REDUCE LONG-TERM DEBT LEVELS

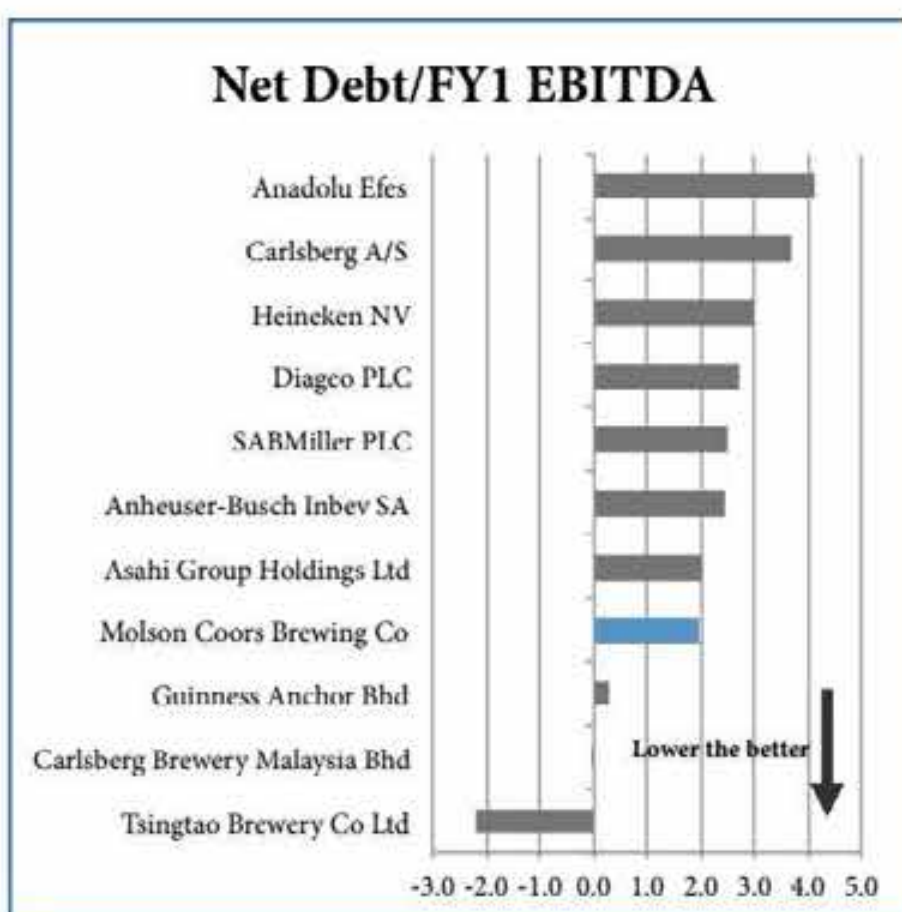
- Molson Coors currently has US\$ 3.2B in total debt* and continues to reduce its debt levels (by US\$ 613M in 2014)
- The Company has generated Underlying Free Cash Flow of US\$ 957M in 2014 (vs 892M in 2013)
- It has also reiterated a commitment to deleverage to pre-StarBev acquisition levels of < 2x Net Debt/ EBITDA



* AS AT 31 DECEMBER 2014

MOLSON COORS: FINANCIAL LEVERAGE

- Molson Coors employs a lower level of financial leverage than its global peer group average
- Total Debt/Equity is 0.41x versus the global peer group average of 0.56x
- Net Debt/FY1 EBITDA is 1.94x versus the global peer group average of 2.26x*



DATA SOURCE: THOMSON REUTERS EIKON AS AT 17 MARCH 2015
 * GLOBAL PEER GROUP AVERAGE EXCLUDES TSINGTAO BREWERY CO LTD

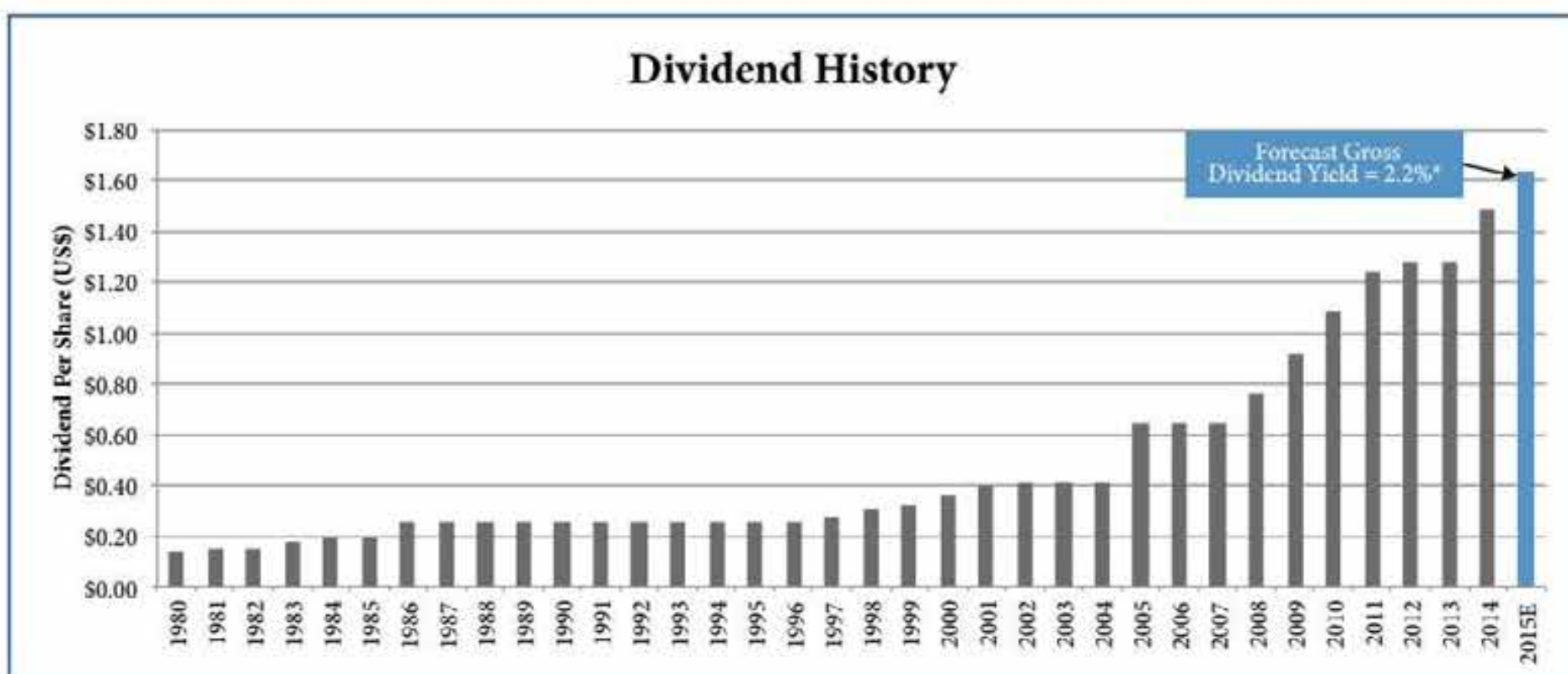
MOLSON COORS: CAPITAL RETURN

DIVIDENDS

- Dividends per share have increased consistently from 1980
- FY2014 dividend amounts to a payout ratio of 18% FY2014 EBITDA
- Target payout ratio: 18%-22% of trailing year EBITDA
- Molson Coors currently has a Forecast Gross Dividend Yield of 2.2%*

SHARE BUYBACKS

- Management have commented that they would consider share buybacks after deleveraging is complete



* AS AT 17 MARCH 2015

DATA SOURCE: THOMSON REUTERS WORLDSCOPE AS AT 17 MARCH 2015

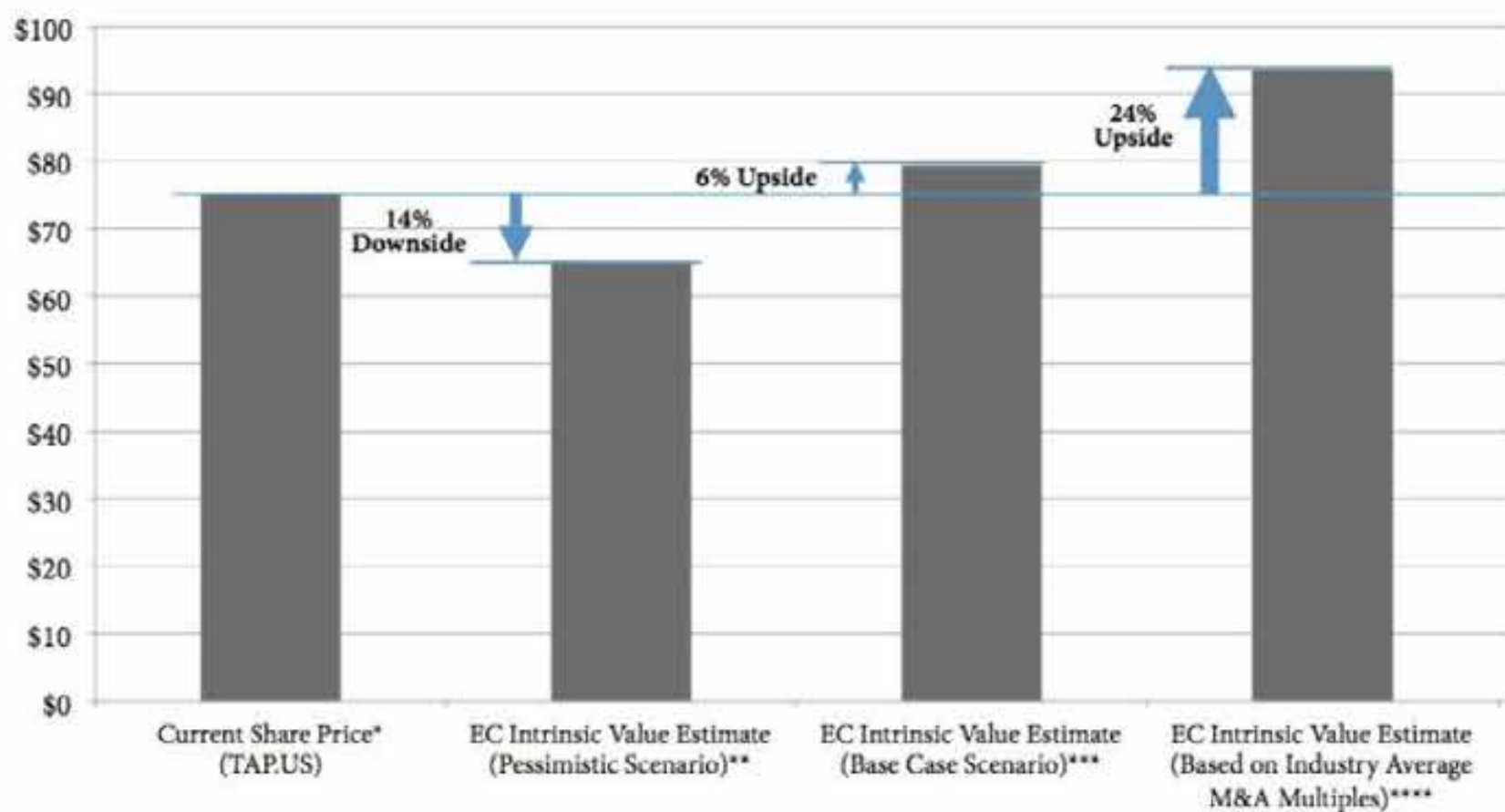
MOLSON COORS: ELEVATION CAPITAL'S VALUATION RANGE

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:

**US\$ 65.13 -
US\$ 93.52**
PER SHARE

UPSIDE/DOWNSIDE
POTENTIAL RANGE:
-14% - +24%

Valuation Summary



* MOLSON COORS CLASS B (TAP:US) SHARE PRICE AS AT 17 MARCH 2015

** BASED ON EC ESTIMATED PESSIMISTIC FY2015 EBITDA AND PESSIMISTIC EV/EBITDA MULTIPLE

*** BASED ON AVERAGE EV/TTM EBITDA MULTIPLE OF GLOBAL PEER GROUP (12.4X)

**** BASED ON AVERAGE EV/EBITDA MULTIPLE FOR THE M&A TRANSACTION SAMPLE GROUP (14.2X)

MOLSON COORS: KEY OPPORTUNITIES

M&A OPPORTUNITIES

Molson Coors stands to benefit from industry consolidation one way or the other. It may become an acquisition target itself, a possibility we have incorporated into our valuation. We estimate that, should this be the case, the average transaction EV/EBITDA multiple among our sample of transactions is 14.2x, generating a valuation of US\$ 93.53 for Molson Coors.

ACQUISITION OF MILLERCOORS

Should SABMiller be acquired by AB InBev it is likely that the combined entity would be required to divest MillerCoors (a joint venture between Molson Coors and SABMiller) in order to comply with antitrust regulations. Molson Coors is the most likely acquirer and will benefit from the synergies between the businesses and a lack of competition for the asset given the JV structure.

CONTINUED GROWTH IN EMERGING MARKETS

Molson Coors International is the international segment of Molson Coors and it operates in Asia, emerging Europe, Latin America and Australasia. These markets are consistently shown to be the highest growth regions for the beer market and Molson Coors management have indicated their intention to increase exposure to high growth markets.

STRONG BRANDS

Molson Coors brands have strength, particularly at a local level. Coors may not have the international recognition of Heineken or Corona, but it is the second most popular beer in the US according to USA Today. Similarly, Molson Canadian and Coors Light are both in the top five most popular beers in Canada while Carling is the most popular lager in England.



MOLSON COORS: KEY RISKS

COMPETITION

Brewers must invest significantly in marketing in order to distinguish their product from competitor's offerings. The industry has seen annual increases in prices > CPI for a long time because of the oligopolistic market structure.

SUBSTITUTION OF BEER FOR WINE OR SPIRITS

Beer consumption has been reducing in a number of western countries as consumers become more open to trying wines and spirits. Although emerging markets have been areas of strong growth for beer producers, if the trend of reducing beer consumption continues it will hurt earnings. A 2014 study of global beer consumption trends by Kirin found that beer consumption was at record levels but this was largely being driven by emerging markets such as China, Brazil, Mexico and Poland. Some key European markets for Molson Coors were declining, such as Germany (-1.6%), the United Kingdom (-3.7%) and France (-1.5%).

GENERAL ECONOMIC CONDITIONS

Beer consumption, as a normal good in the economic sense, is closely tied to general economic conditions. To this extent global economic growth patterns have a direct effect on Molson Coors business.

OWNERSHIP ISSUES

The Molson and Coors families collectively control the company through their ownership of shares with voting rights. The risk is that the families will have interests which differ from other shareholders, particularly in the event of a takeover offer.

REGULATION

Increased taxes or new regulations may negatively affect Molson Coors business. Excise taxes on alcohol already account for ~13.4% of revenue per year based on the average over the past three years.

LABOUR UNION ISSUES

The prominence of labour unions in Canada, the UK and, to a lesser extent, the USA subjects Molson Coors to certain risks. These are in the form of potential interruption of supply in the event of strikes as well as the potential for increasing wage expenses.

FOREIGN EXCHANGE

All businesses which conduct operations on a global basis are exposed to currency risk and Molson Coors is no different. Molson Coors reports in US dollars and accordingly if there is a significant shift in the value of the US dollar upward, then the business will experience negative translation effects.

MOLSON COORS: ELEVATION CAPITAL VIEW & CONCLUSION

Molson Coors is the seventh largest brewer in the world and it operates in an industry which is experiencing rapid consolidation. The most intriguing aspect of Molson Coors from an investor's perspective is the prospect that it will become subject to a takeover offer or will otherwise benefit from M&A activity.

AB InBev is the natural acquirer in this industry, having grown into a behemoth with a market cap of ~US\$ 182B. We believe that SABMiller and Molson Coors are potential targets, with rumours that AB InBev was considering financing options for an acquisition of SABMiller during 2014.

Whether Molson Coors is the target or not, it will benefit from industry consolidation. Should SABMiller be acquired, it is likely the combined brewer would be required to divest MillerCoors (a joint venture between SABMiller and Molson Coors) because of antitrust laws, with Molson Coors being the most likely beneficiary of the forced divestment.

Regardless of any possible M&A interest, Molson Coors holds a solid stable of brands which have strong appeal in the US and Canadian markets (in the case of Molson's, Millers and Coors) and in the UK (in the case of Carling).



ELEVATION CAPITAL MANAGEMENT LIMITED

MONDELEZ INTERNATIONAL INC [MDLZ:US]

Research Presentation released in December 2015





MONDELÉZ: A GLOBAL SNACKS POWERHOUSE

Mondelēz International, Inc. is one of the world's largest snacks companies...



BISCUITS

THE WORLD'S LARGEST BISCUIT BAKER*



* SOURCE: EUROMONITOR

MONDELÉZ: A GLOBAL SNACKS POWERHOUSE

Mondelēz International, Inc. is one of the world's largest snacks companies...



CHOCOLATE

THE WORLD'S LARGEST CHOCOLATIER*

The Milka logo is written in a blue, cursive script.

The Toblerone logo features a gold mountain peak icon above the word "TOBLERONE" in a bold, red, sans-serif font.

The LACTA logo is written in a blue, bold, sans-serif font with a blue underline.

The Cadbury logo is written in a blue, cursive script.

* SOURCE: EUROMONITOR

MONDELÉZ: A GLOBAL SNACKS POWERHOUSE

Mondelēz International, Inc. is one of the world's largest snacks companies...



GUM & CANDY

THE WORLD'S LARGEST CANDY MAKER
& SECOND LARGEST MAKER OF GUM*

Trident

Stride

HALLS

Dentyne

* SOURCE: EUROMONITOR

MONDELÉZ: HISTORY

- 
- 1903 K.L.Kraft started a wholesale cheese business
 - 1928 Kraft Cheese merged with Phenix Cheese Corp to become Kraft-Phenix Cheese Corp
 - 1923 National Dairy Products Corp formed
 - 1923-1931 Acquired more than 55 firms
 - 1930 National Dairy acquired Kraft-Phenix
 - 1940 Kraft-Phenix Cheese Corp renamed as Kraft Cheese Co
 - 1945 Kraft Cheese Co renamed as Kraft Foods Co
 - 1969 National Dairy renamed as Kraftco Corp
 - 1976 Kraftco Corp renamed as Kraft, Inc
 - 1980 Kraft, Inc merged with Dart Industries Inc to become Dart & Kraft, Inc
 - 1986 Dart & Kraft spun-off its nonfood business (except Duracell) and renamed as Kraft, Inc
 - 1988 Duracell was sold to KKR

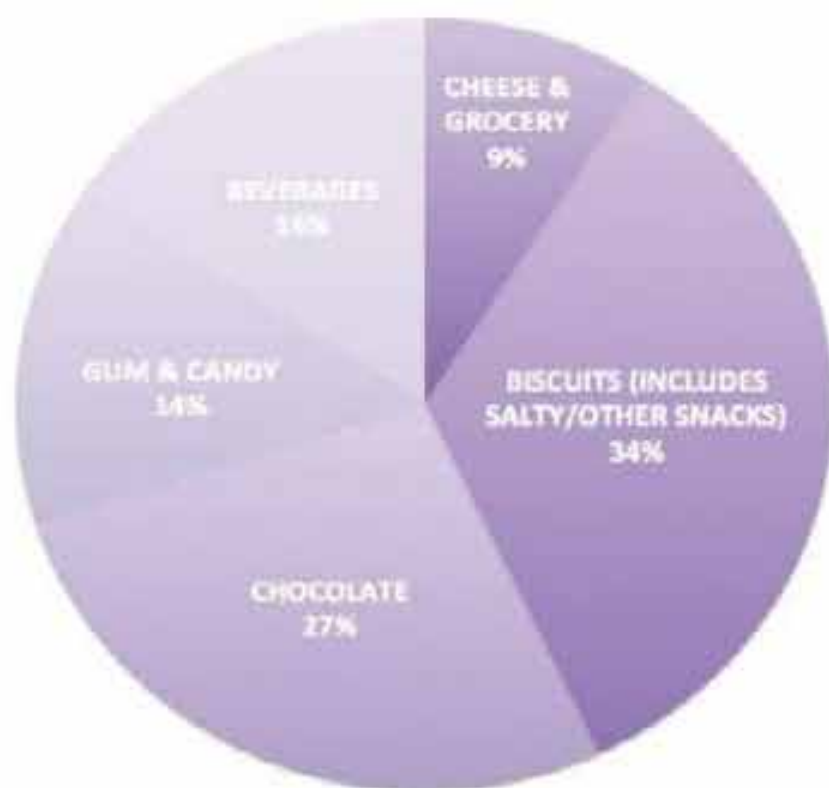
MONDELÉZ: HISTORY CONTINUED

- 
- 1988 Philip Morris Co purchased Kraft for US\$ 12.9B
 - 1989 Kraft merged with Philip Morris' General Foods unit as Kraft General Foods (KGF)
 - 1955 Kraft General Foods renamed as Kraft Foods Inc
 - 2000 Philip Morris acquired Nabisco Holdings for US\$ 18.9B and merged it with Kraft Foods
 - 2001 Philip Morris made an IPO for Kraft Foods Inc and sold ~12% to the public
 - 2003 Philip Morris renamed as Altria
 - 2007 Altria spun off its 88% stake in Kraft to its shareholders. Kraft became an independent public company
 - 2011 Kraft announced plan to split the company into two publicly listed companies – a snack foods company and a grocery company
 - 2012 Kraft Foods Inc spun off its grocery business to its shareholders, which is called Kraft Foods Group, Inc. After the spinoff, the remaining snack business (Kraft Food Inc) was renamed as Mondelez International Inc

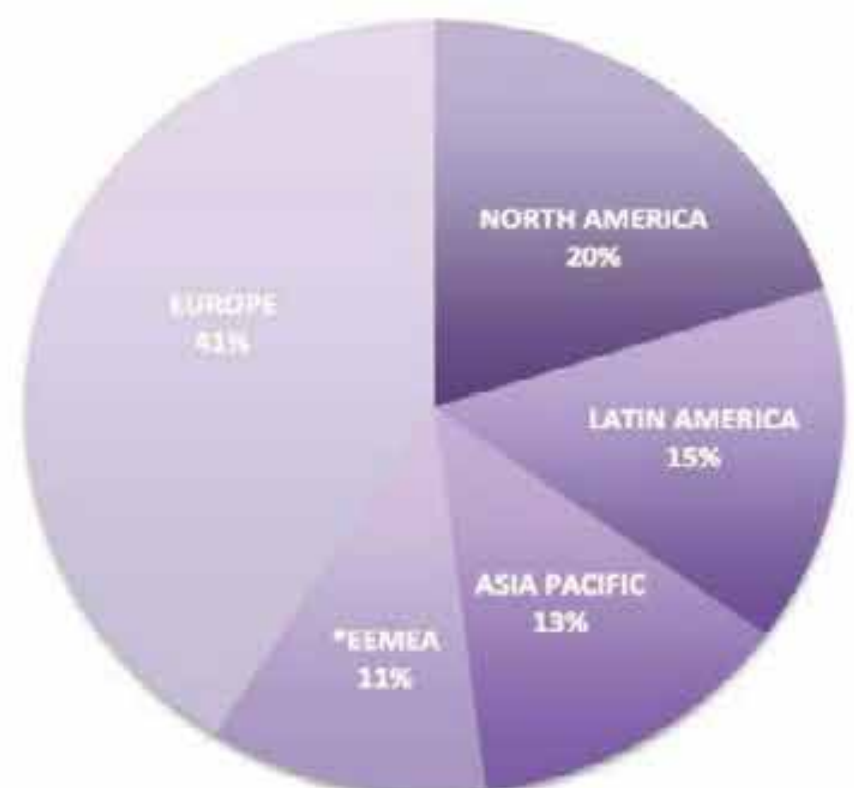
MONDELÉZ: EXPOSURE TO HIGH-GROWTH CATEGORIES AND MARKETS

- ~75% of revenue is generated in the fast-growing Biscuits, Chocolate and Gum & Candy categories.
- ~44% of revenue is derived from higher-growth emerging markets.
- Exposure to emerging markets has been a short-term drag on performance (largely due to currency).
- However, longer term it is likely to be positive.

Sales by Category
(FY2014)



Sales by Geography
(FY2014)



SOURCE: COMPANY FACTSHEET 2015

*EEMEA: EASTERN EUROPE, MIDDLE EAST AND AFRICA

MONDELÉZ: A PORTFOLIO OF THE WORLD'S FAVORITE BRANDS

Mondelez has nine Billion-Dollar Brands: *Cadbury*, *Cadbury Dairy Milk*, *Milka* chocolates; *Jacobs* coffee; *LU*, *Nabisco* and *Oreo* biscuits; *Tang* powdered beverages, and *Trident* gum. Another 58 brands owned by Mondelez each generate annual revenues of more than US\$ 100 million.



MONDELÉZ: NINE BILLION-DOLLAR BRANDS



Cadbury was founded in 1824 when John Cadbury opened a grocer's shop at 93 Bull Street, Birmingham, England. Among other things, he sold cocoa and drinking chocolate, which he prepared himself using a pestle and mortar. Now, the brand offers a number of chocolates and drinks, including the Cadbury Egg, Cadbury Dairy Milk chocolates, Flake, Wispa, Twirl and Eclairs chocolates, and Cadbury Bourneville drinking chocolate.



Cadbury Dairy Milk is a milk chocolate bar made with fresh liquid milk – a glass and a half for every half pound of chocolate to be precise. It quickly became the market leader in the UK after it was launched in the early 1900s. Dairy Milk bars are now enjoyed in 33 countries and available in more than 23 varieties, like Fruit & Nut, WholeNut, Snack, Caramello and Breakaway.



Milka is the leading European chocolate. The word Milka is derived from combining Milch and Kakao, which are the German terms for milk and cocoa, chocolate's primary ingredients. Milka's unique lilac-colored packaging and the famous lilac cow symbolise its Alpine heritage.

MONDELÉZ: NINE BILLION-DOLLAR BRANDS



Nabisco is one of the Company's billion-dollar brands. Its roots date back to 1898 when the United States Baking Company, the New York Biscuit Company and the American Biscuit & Manufacturing Company formed to become the National Biscuit Company. The name Nabisco first appeared on a new sugar wafer product in 1901, but the corporate name did not change from National Biscuit Company to Nabisco, Inc. until 1971. Today, Nabisco's brands include some of the best-known cookies and crackers in the world, including Chips Ahoy!, Oreo and Ritz.



Oreo is (by far) the best-selling cookies brand in the world. Since its introduction in 1912, Oreos continue to be America's most popular cookie brand and are now a favourite of consumers around the globe. The Company sold more than US\$ 2.5 billion of the creme-filled cookies in 2014.



LU biscuits, founded in 1850 by Monsieur LeFevre and Mademoiselle Utile, is one of the greatest success stories in the French food industry. It began with a small family operation in France that grew to become a market leader. LU biscuits are available in 100 countries and include such childhood favourites as Le Petite Ecolier. Other international brands under the LU name include Petit Dejuener, Mikado, Pepito (Mini Stars), Cracotte, Ourson and Tuc.

MONDELÉZ: NINE BILLION-DOLLAR BRANDS



Tang, created in 1957 and available in more than 30 countries, is the leading brand in the Company's powdered beverage portfolio. The brand was closely associated with the U.S. manned spaceflight program as NASA used it on John Glenn's Mercury flight, and subsequent Gemini missions.

This fresh, fruit-flavoured drink is available in a variety of flavours - based on local consumers' preferences - and is fortified with minerals and vitamins. It is available both as a powdered beverage and in ready-to-drink bottles.



Trident is the number one chewing gum brand in the world. It was also the world's first sugar-free chewing gum. Many people still remember the slogan for Trident in the 1970s — “four out of five dentists surveyed recommend sugarless gums for their patients who chew gum”. The first Trident gum was manufactured in 1960 by American Chicle. It was a sugared gum that was designed to combat tartar on the teeth. The “tri” in the name signified three enzymes it contained that were said to dissolve the tartar, and the “dent” alerted consumers that it was designed for dental health.

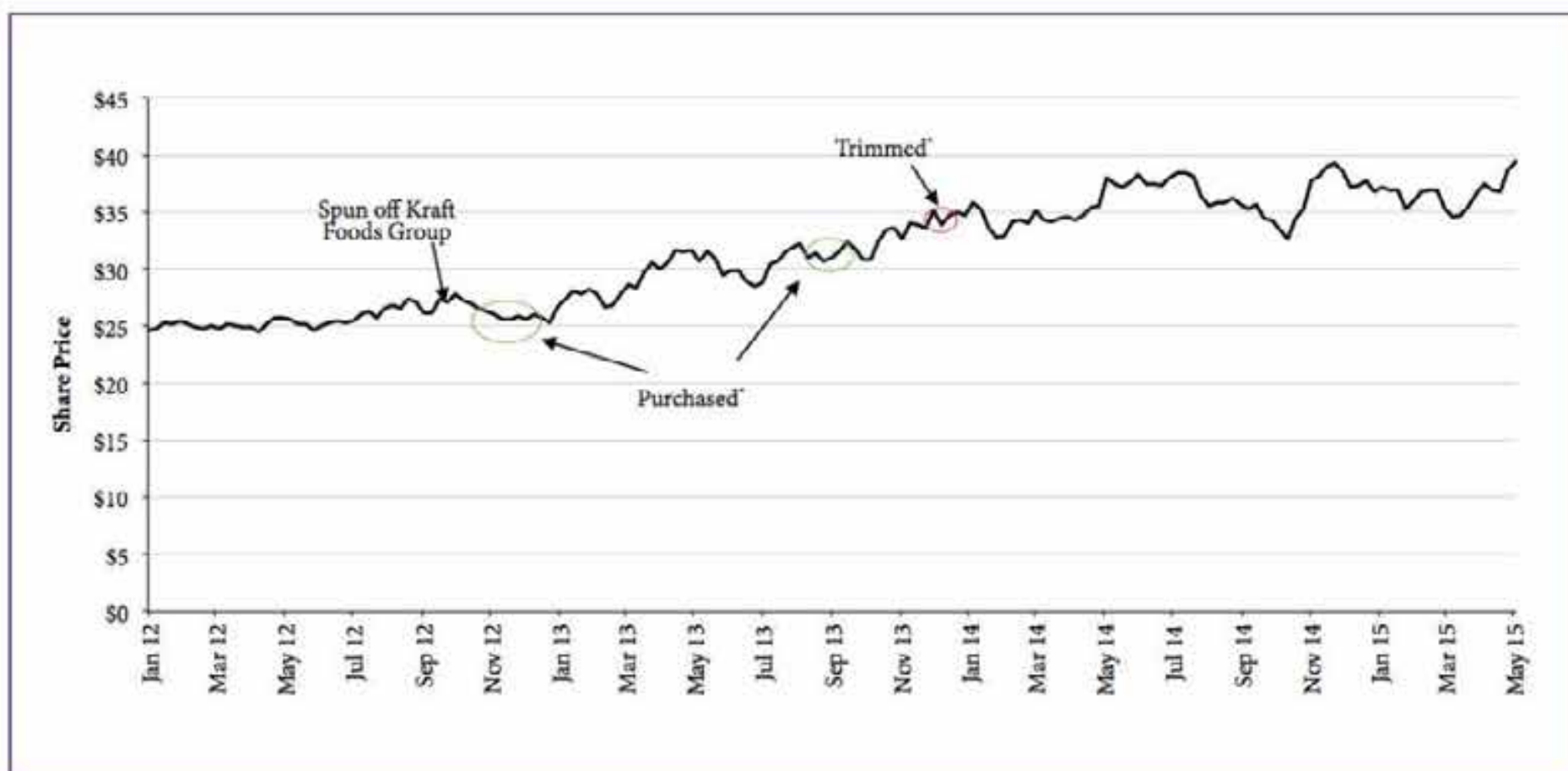


The rich history of **Jacobs** coffee began in 1895 in Germany. That's when 26-year-old Johan Jacobs opened a specialty coffee shop in Bremen and introduced his own special brand of coffee. Jacobs coffee is sold throughout Europe and is a market leader in countries like Austria and Germany.

(Mondelēz announced in May 2014 that it will merge its coffee business with D.E. Master Blenders 1753 to form the largest pure-play coffee company in the world.)

MONDELÉZ: MACROECONOMIC FACTORS PRESENTED OPPORTUNITY

- 2012 was a year when continued weakness in major economies started to affect formerly fast-growing emerging markets. The slow down in emerging markets had negatively impacted the share price of Mondelez (after the spin-off of Kraft Foods Group in October 2012), which derives 44% of revenue from developing markets.
- We believed medium-term macroeconomic conditions in emerging markets provided an opportunity for long-term minded investors to acquire a portfolio of great consumer brands at a discount.
- We also felt that separation would turn a spotlight on the performance of management and the margin performance of the underlying business which was well below high quality global peers.
- We initiated our position within the Elevation Capital Value Fund in October 2012, and then added to the position after Trian Partners went public on its activist position in 2013. Our average cost is US\$ 28.36*.
- Current share price** = US\$ 39.33 (Market Capitalisation = US\$ 64.0B).



* FOR ELEVATION CAPITAL VALUE FUND (ONLY) – AS AT 30 DECEMBER 2013. ELEVATION CAPITAL SEPARATE ACCOUNTS PURCHASED THE STOCK BETWEEN US\$ 30.75 – US\$ 37.67 DURING THE PERIOD 29 JULY 2013 – 30 JANUARY 2015

** AS AT 11 MAY 2015

MONDELEZ: BELOW-AVERAGE MARGINS PROVIDE ROOM-FOR-IMPROVEMENT

OPPORTUNITIES FOR COST CUTTING AND MARGIN EXPANSION

- The Company has below-average margins when compared to its global peers. Under pressure, management is attempting to expand margins through cost discipline (including through a reduction of employees) and creating a leaner, more efficient supply chain through improving supply chain infrastructure. The Company has also decreased its headcount from 127,000 during 2010 to 107,000 in 2013, a process which has continued post spin-off.
- The Company has made significant progress in the past year, and is currently projecting further improvement in its adjusted operating margin to 15%-16% in 2016.



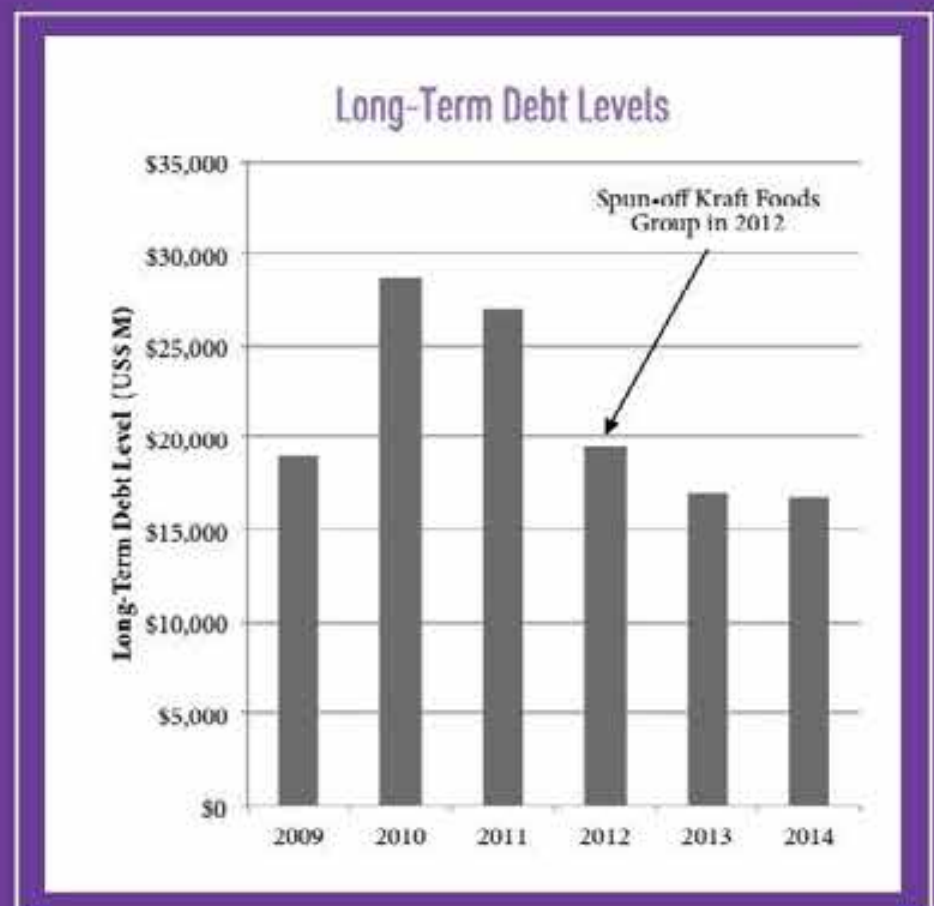
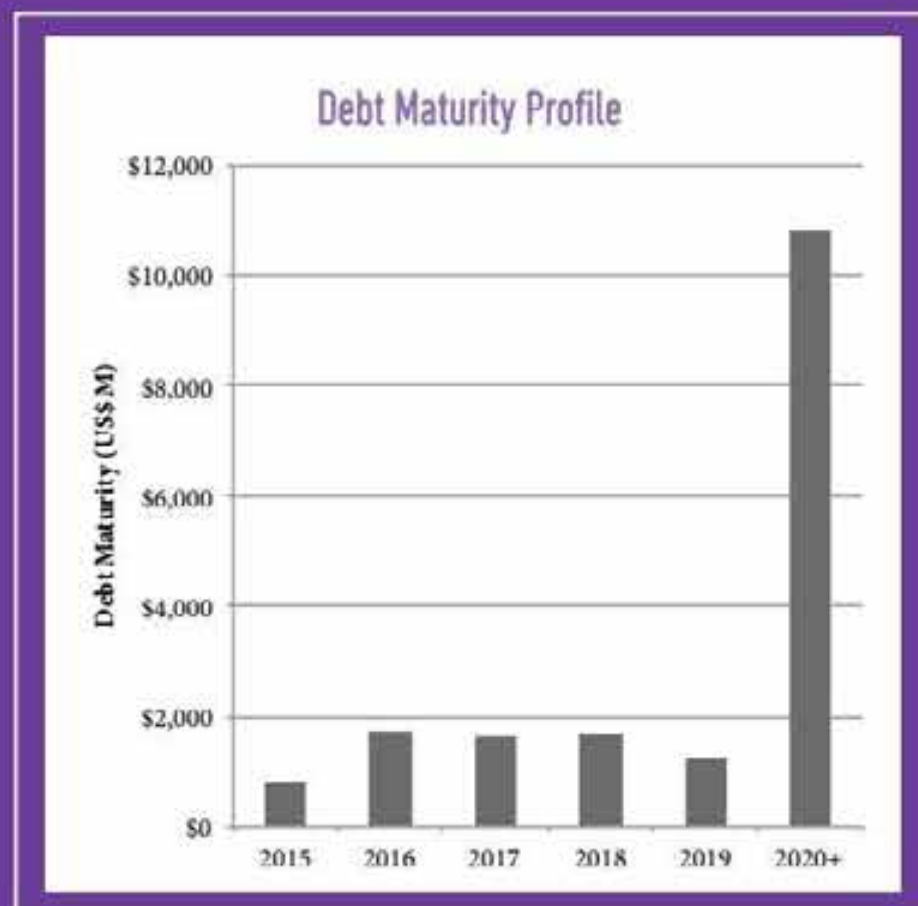
EBIT Margin (TTM)*

Hershey Co	19.3%
Procter & Gamble Co	19.3%
General Mills Inc	16.3%
Nestle SA	15.4%
Campbell Soup Co	15.2%
PepsiCo Inc	15.2%
Mondelez	12.9%
Kerry Group PLC	10.6%
Kellogg Co	9.9%
Post Holdings Inc	5.6%
Parmalat SpA	5.5%
Tyson Foods Inc	3.8%
Median	14.1%

* AS AT 11 MAY 2015

MONDELÉZ: CONTINUES TO REDUCE LONG-TERM DEBT LEVELS

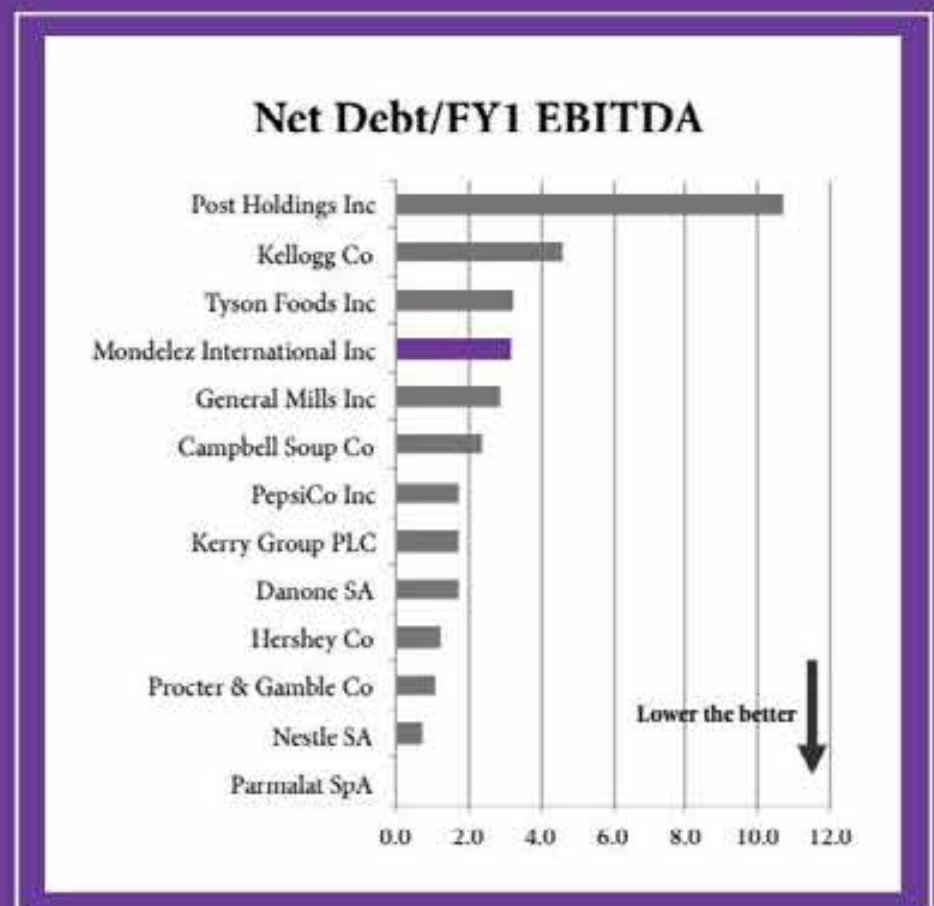
- At the end of FY2014, Mondelez had US\$ 16.7B in total debt* and continues to reduce its debt.
- The Company expects to maintain investment grade credit ratings on its debt (S&P: BBB/A-2, Moody's: Baa1).
- The Company also utilises a commercial paper program (US\$ 1.3B*), primarily uncommitted international credit lines and long-term debt issuances for regular funding requirements.



* AS AT 31 DECEMBER 2014

MONDELÉZ: FINANCIAL LEVERAGE

- Mondelēz employs a lower level of financial leverage than its global peer group average:
 - Total Debt/Equity is 0.60x versus the global peer group average of 1.16x
- However, Mondelēz has relatively lower margins than its global peer group that contributes to higher earnings-based financial leverage ratios such as Net Debt/EBITDA:
 - Net Debt/FY1 EBITDA is 3.15x versus the global peer group average of 2.94x*



DATA SOURCE: THOMSON REUTERS EIKON AS AT 11 MAY 2015

* GLOBAL PEER GROUP AVERAGE EXCLUDES PARMALAT SPA WHICH CURRENTLY HAS A NET CASH POSITION

MONDELÉZ: CAPITAL STRUCTURE & OWNERSHIP

EQUITY

- Mondelēz has 1.63 billion shares outstanding. Current market capitalisation is US\$ 64.0B based on share price of US\$ 39.33*.

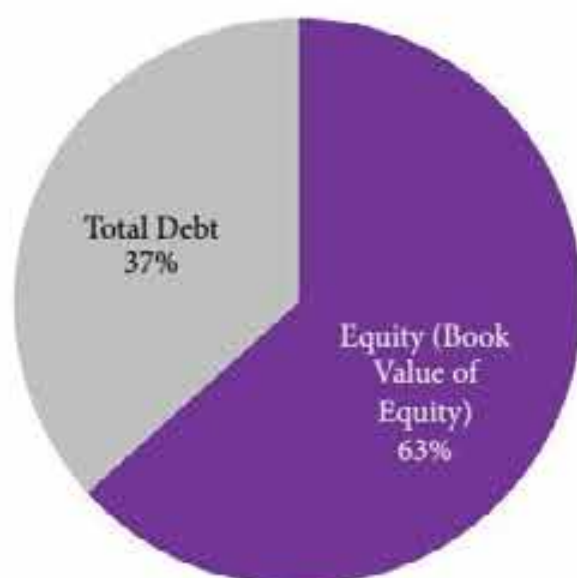
DEBT

- At the end of FY2014, Mondelēz has US\$ 16.7B** in total debt, down from US\$ 19.4B as at the end of FY2012.

ACTIVIST SHAREHOLDERS

- It is noted that on the top 10 investors list, there are two activist investors – Trian Fund Management & Southeastern Asset Management.

Capital Structure



Top 10 Investors***

The Vanguard Group	5.24%
State Street Global Advisors	4.77%
BlackRock Institutional Trust	3.91%
Trian Fund Management	3.11%
Wellington Management	2.72%
Southeastern Asset Management	1.64%
Fidelity Management	1.51%
Jennison Associates	1.40%
JP Morgan Asset Management	1.39%
Capital Research Global Investors	1.36%

* AS AT 11 MAY 2015

** AS AT 31 DECEMBER 2014

*** DATA SOURCE: THOMSON REUTERS EIKON AS AT 12 MAY 2015

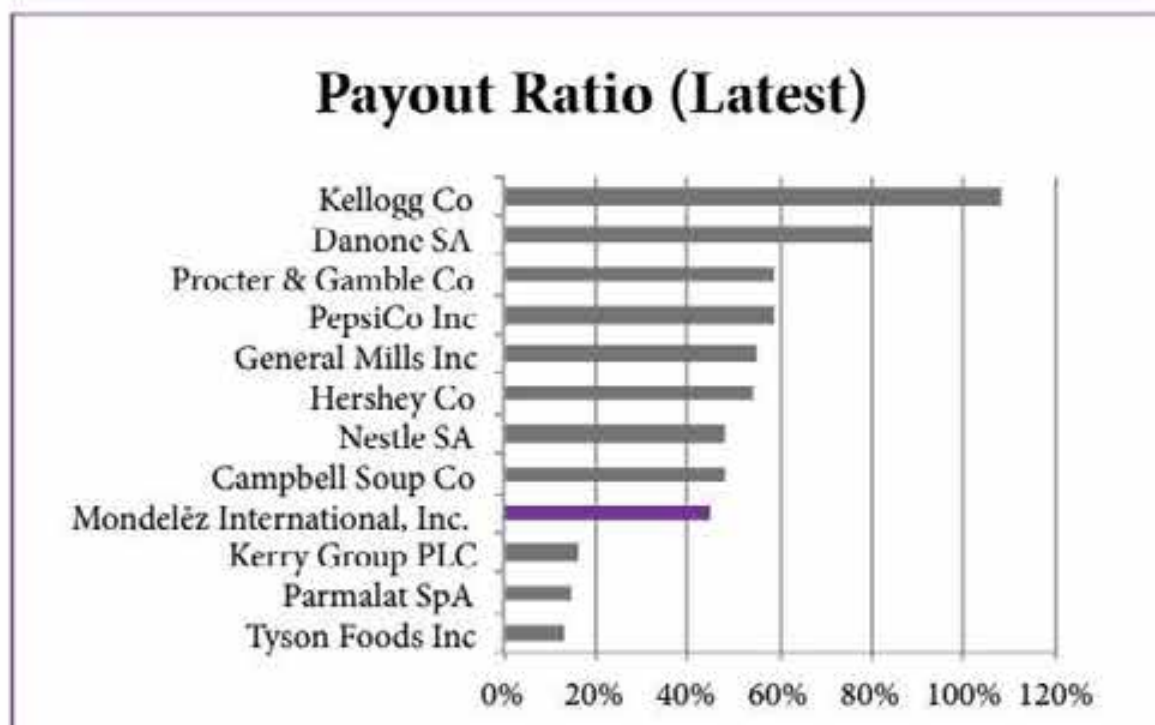
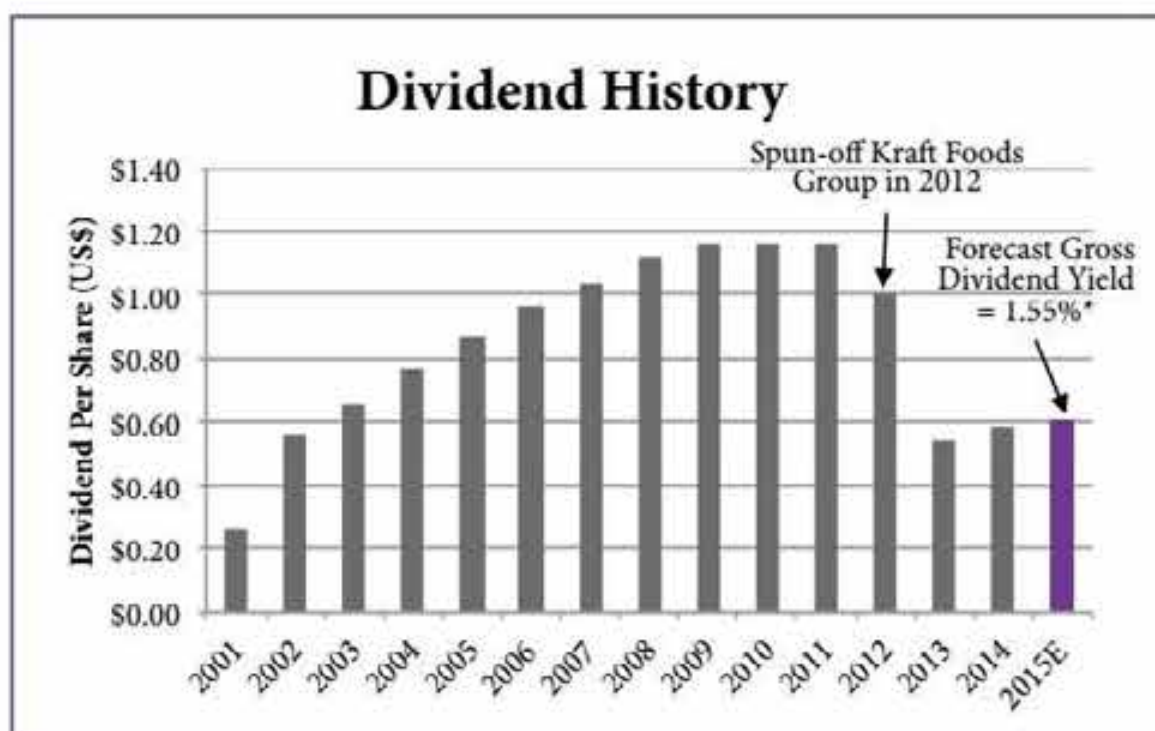
MONDELÉZ: CAPITAL RETURN HISTORY

DIVIDENDS

- Dividends per share have increased since the Kraft Foods spin-off
- FY2014 dividend amounts to a payout ratio of 44% (Management target: minimum 30%)
- We see considerable scope to lift payout ratio to match global peers (Peer Group Median = 54%)
- Mondelez currently has a Forecast Gross Dividend Yield of 1.55%*

SHARE BUYBACKS

- In 2013, the Board of Mondelez authorised the repurchase of US\$ 7.7B of shares through 2016. The remaining repurchase program capacity is at US\$ 3.1B (~5% of current Market Cap) as at 31 December 2014
- Buybacks to date have added value for long-term shareholders



* AS AT 11 MAY 2015 ** AS AT 31 DECEMBER 2014

*** DATA SOURCE: THOMSON REUTERS EIKON AS AT 12 MAY 2015

MONDELÉZ: VERSUS GLOBAL PEERS

- Currently, Mondelez trades at a slight premium to its global peers as its share price rallied ~14.5% in the last two months*. We hypothesise that it is mainly due to two reasons:
 - H.J. Heinz's announced acquisition of Kraft Foods Group on 25 March 2015 that values Kraft at a suggested 15.6x EV/EBITDA multiple
 - The continued improvement in margins in its recent Q1 2015 results and the expectation of continued margin improvements in future periods

	Peer Group						
	TTM P/E	NTM P/E	Price/Sales	EV/NTM EBITDA	Price/Cash Flow	Price/Book	Dividend Yield
Campbell Soup Co	19.0x	18.7x	1.7x	11.9x	11.7x	9.4x	2.7%
Danone SA	33.5x	20.6x	1.9x	14.0x	17.2x	3.2x	2.4%
General Mills Inc	24.3x	19.0x	1.9x	12.8x	14.5x	6.1x	3.1%
Hershey Co	23.2x	21.3x	2.8x	10.1x	19.3x	16.4x	2.3%
Kellogg Co	45.8x	17.5x	1.6x	11.6x	16.5x	8.9x	3.1%
Kerry Group PLC	23.3x	20.5x	1.9x	16.7x	20.5x	5.0x	0.7%
Nestle SA	16.1x	21.0x	2.6x	14.9x	15.2x	3.3x	3.0%
Parmalat SpA	22.2x	18.4x	0.8x	7.7x	9.3x	1.4x	0.7%
PepsiCo Inc	22.5x	20.7x	2.2x	12.9x	15.7x	9.0x	2.9%
Post Holdings Inc	179.5x	76.9x	0.9x	12.8x	20.9x	1.0x	-
Procter & Gamble Co	23.8x	19.5x	2.8x	13.2x	15.7x	3.5x	3.3%
Tyson Foods Inc	16.1x	11.4x	0.4x	8.7x	9.6x	1.6x	1.0%
Peer Group Median Average	23.3x	20.0x	1.9x	12.2x	15.7x	4.2x	2.7%
Mondelez International, Inc.	28.5x	21.6x	1.9x	14.5x	21.2x	2.6x	1.5%



* FROM 11 MARCH 2015 TO 11 MAY 2015

DATA SOURCE: THOMSON REUTERS EIKON AS AT 11 MAY 2015

MONDELÉZ: POSSIBLE FURTHER M&A ACTIVITY IN THE INDUSTRY

We have detailed below a sample of M&A transactions in the confectionery industry over the past 15 years:

Transaction	Acquisition Price	EV/EBITDA Multiple
H.J. Heinz (3G/BRK) announced acquisition of Kraft Foods Group (2015)	US\$ 56B	15.6x
Tyson Foods acquisition of Hillshire Brands (2014)	US\$ 6.8B	13.4x
Joh. A. Benckiser acquisition of D.E. Master Blenders 1753 (2013)	US\$ 9.8B	16.0x
3G/BRK acquisition of H.J. Heinz (2013)	US\$ 28B	13.7x
Kellogg acquisition of Pringles (2012)	US\$ 2.7B	11.0x
Kraft acquisition of Cadbury (2010)	US\$ 19.6B	13.0x
Mars acquisition of Wrigley (2008)	US\$ 23.0B	18.1x
Kraft acquisition of Danone's Biscuits Business (2007)	US\$ 7.2B	13.2x
PepsiCo acquisition of Quaker Oats (2000)	US\$ 13.4B	15.6x
Transaction Sample Average:	US\$ 18.5B	14.4x

- H.J. Heinz's announced the acquisition of Kraft Foods Group on 25 March 2015 provides a solid indication of the potential price (and intrinsic value) of the Company, if the acquirer has the ability to extract similar synergies out of Mondelez (which we assume is the case).
- The Heinz/Kraft transaction multiple of 15.6x (TTM), would imply a value of US\$ 40.92 per Mondelez share in a takeover scenario.
- We believe an elevated multiple is likely in the event of a takeover given the superior international brands owned by Mondelez, future growth in emerging markets as well as the potential for significant margin expansion in future periods.

MONDELÉZ: POSSIBLE FURTHER M&A ACTIVITY IN THE INDUSTRY

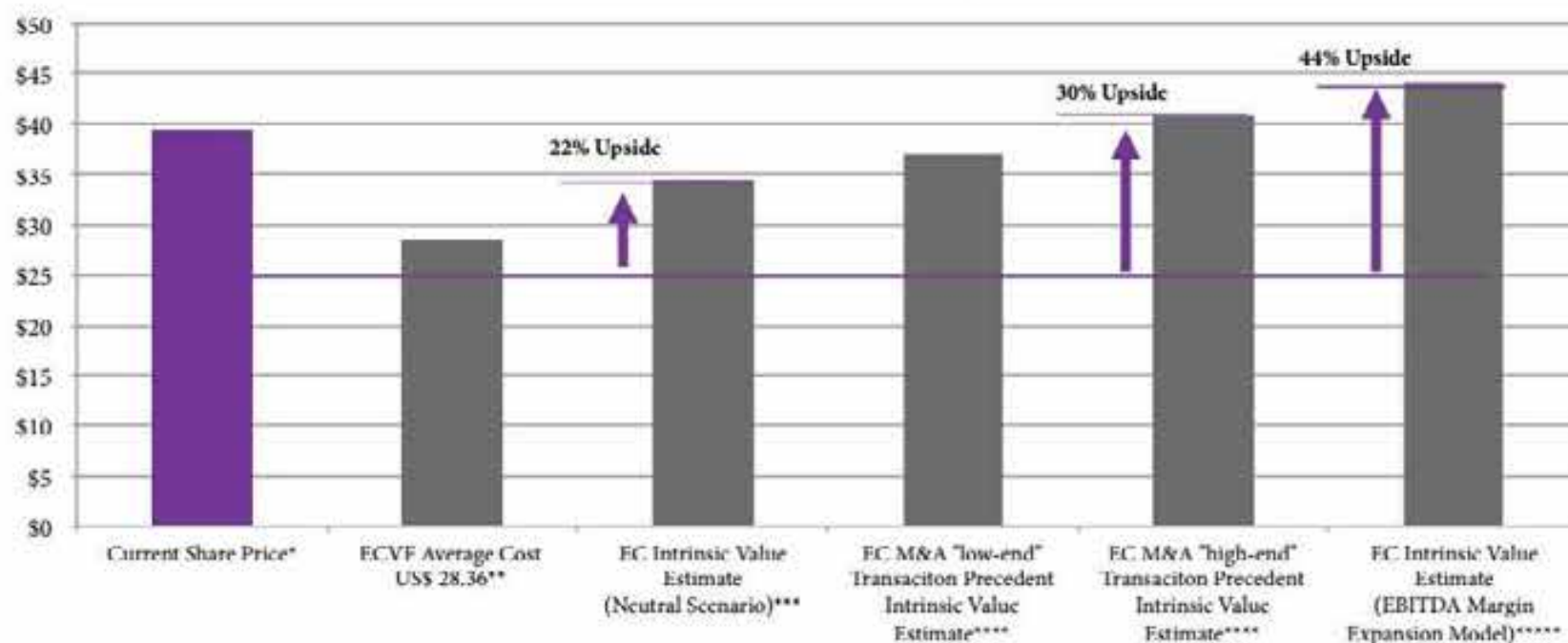
ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:

**US\$ 34.58 -
US\$ 44.06**
PER SHARE

UPSIDE/DOWNSIDE
POTENTIAL RANGE
BASED ON ECVF AVERAGE
COST :

+22% - +44%

Valuation Summary



* MONDELEZ SHARE PRICE AS AT 11 MAY 2015

** US\$ AVERAGE COST PER SHARE FOR ELEVATION CAPITAL VALUE FUND ("ECVF") AS AT 30 DECEMBER 2013

*** NEUTRAL SCENARIO BASED ON MONDELEZ AVERAGE EV/TTM EBITDA MULTIPLE SINCE KRAFT SPINOFF (13.7X TTM)

**** LOW-END M&A - BASED ON AVERAGE EV/EBITDA MULTIPLE FOR THE TRANSACTION SAMPLE GROUP (14.4X TTM)

**** HIGH-END M&A - BASED ON ESTIMATED 3G/BRK ACQUISITION OF KRAFT (15.6X)

***** BASED ON ELEVATION CAPITAL'S INTERNAL EBITDA MARGIN EXPANSION MODEL AND AVERAGE EV/EBITDA MULTIPLE FOR THE M&A TRANSACTION SAMPLE GROUP (14.4X TTM) SINCE 2000. (ELEVATION CAPITAL'S EBITDA MARGIN EXPANSION MODEL IS BASED ON -66% OF THE C.O.G.S AND -30% OF THE S,G&A REDUCTIONS AT H.J HEINZ SINCE ITS TAKEOVER BY 3G/BRK.)

MONDELÉZ: KEY OPPORTUNITIES

EMERGING MARKETS

- Increasing sales in key emerging markets is an integral part of Mondelez forward strategy. Management have referred to this as 'winning' in emerging markets. Snack food consumption is highly correlated with GDP growth, the urbanisation of populations, increases in discretionary income and a growing middle class. These forces are particularly strong in emerging markets where Mondelez is focused and should deliver long-term growth opportunities.

BRAND STRENGTH

- Mondelez owns some of the most well-known snack food brands in the world. In all, the company owns nine brands which generate over US\$ 1B or more in revenue annually. Cadbury in particular is a worldwide brand with international recognition. According to Euromonitor, holds the No. 1 position globally in Biscuits, Chocolate and Candy as well as the No. 2 position in Gum.

SHARE BUYBACKS

- In 2013, the Board of Mondelez authorised the repurchase of US\$ 7.7B of shares through 2016. The Company still has a repurchase capacity of US\$ 3.1B (~5% of current Market Cap*) as at 31 December 2014. We believe that if well executed, the share-buyback program can continue to add value for long-term minded shareholders.

SHAREHOLDER ACTIVISM AND M&A

- In 2013, Nelson Peltz, CEO and founding partner of Trian Fund Management, began to publicly suggest that Mondelez should merge with PepsiCo. This followed the disclosure that Trian had taken a large position in both companies. Since this time Peltz has taken a position on the Board of Mondelez and has pushed management to cut costs and increase margins.
- The suggestion that PepsiCo should acquire Mondelez appears to have been left to the side for now, however, we believe that it makes sense in the long run, especially with H.J. Heinz's announced acquisition of Kraft.
- In the meantime, the Company announced in May 2014 that it will merge its coffee business with D.E Master Blenders 1753 to form the largest pure-play coffee company in the world. The Company will own a 49% interest in the new combined entity, Jacobs Douwe Egberts.



* AS AT 11 MAY 2015

MONDELÉZ: KEY RISKS

REGULATION

- The effect of government policy and regulation can impact sales volume and earnings significantly. Governments are increasingly willing to increase regulations on sugar and sugar derived products. This can include increasing taxes, increasing regulation on labelling, introducing minimum prices and regulating the marketing and advertising of products.
- We recognise a growing number of governments imposing special taxes on sugar, salt or fat in recent years. However, we also note that the impact of these special taxes seems to be different across products and retailing groups. For example, empirical evidence seems to suggest that soda consumption in France shows little impact from a “sugar tax” and that consumers just end up paying more for the products.
- Regulation in Emerging Markets – We also note that the perception that Emerging Markets are not regulated (or lightly regulated) is incorrect according to Philip Morris International.

CHANGING CONSUMER TASTES

- Consumers are increasingly conscious of the negative health effects of sugar and sugary products. As a number of Mondelez products are high in sugar, this, or other changes in consumer taste, may negatively affect the profitability of the company. If Mondelez fails to anticipate and adapt to changes in consumer tastes, it will have a detrimental impact on the profitability of the business.

COST OF RAW MATERIALS

- Increases in the cost of raw materials such as cocoa, soy, sugar/sweeteners, wheat and corn products etc. can increase the Cost of Goods Sold and therefore have a material impact on Mondelez’ margins.

CONSOLIDATION OF RETAILERS

- Retailers, particularly supermarkets, have been consolidating globally. This process reduces competition among retailers and means there are fewer wholesale customers on which Mondelez can rely. The decrease in competition may mean supermarkets are more likely to resist price increases and demand lower pricing.

COMPETITION

- Mondelez faces competition from a number of peers of varying sizes, both international and regional. Competition is primarily on the basis of product quality, brand recognition, loyalty, service, marketing and (importantly) price. The largest competitors, Mondelez included, fight to distinguish their brands and build recognition with various marketing initiatives as well as with in store promotions. The level of competition dictates how much spending is required to distinguish ones brand and can therefore have a significant impact on margins.

FX RISK

- ~85% of Mondelez’ net revenue during 2013 was generated outside the US. Because the company is based in the US and transfers its earnings back into US\$ there is a high level of currency translation risk. A strengthening of the US\$ will have a significant impact on the financial performance of the business by offsetting the gains from underlying organic growth.

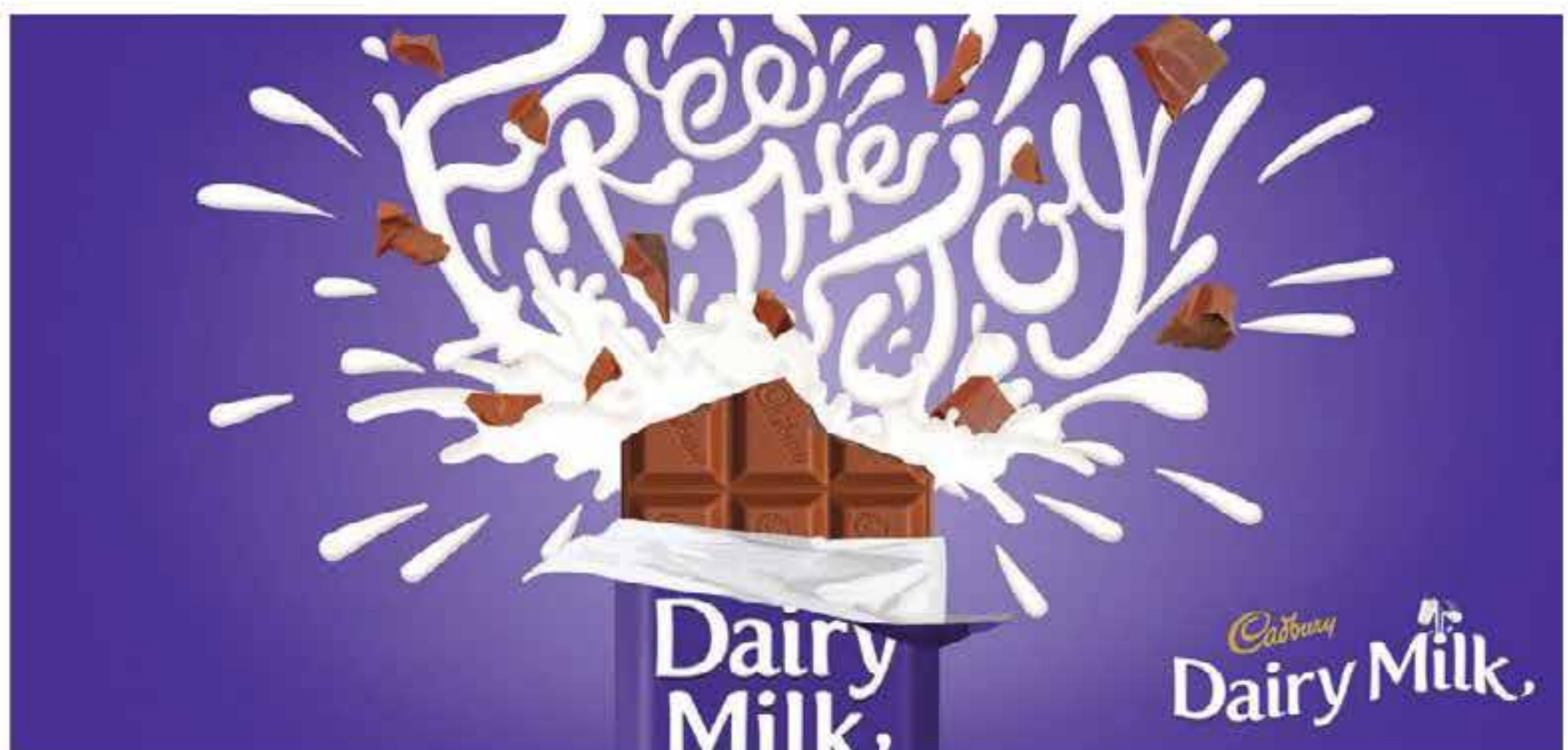
MONDELÉZ: ELEVATION CAPITAL VIEW & CONCLUSION

MARGIN OF SAFETY

- Our “Margin of Safety” with Mondelez is not derived from the discount to its intrinsic value – it is derived from the power of its brands. We are not buying a good company at a great price, we are owning a great company at a fair price. Mondelez owns some of the most enduring brands in the snacks and confectionery category. It is a business with tremendous franchises with global durability and the potential for margins to increase and costs to be further reduced. We view recent pressure on management to apply more cost discipline in the wake of acquisitions by 3G as a positive and highlight the enhanced prospect of M&A activity in the industry.

CONCLUSION

- Mondelez currently trades in the middle of our intrinsic value estimates band. Large, stable businesses with high quality brands such as Mondelez will rarely trade at a significant discount to intrinsic value. However, we see significant upside potential in the business which it is not currently living up to. In the short to medium term Mondelez should focus on cutting unnecessary costs which will bolster earnings and cash flow. From there the Company can seek to increase distributions to shareholders.
- In the medium to long run however, Mondelez can and should pursue more transformative actions. A merger with PepsiCo/Frito Lay would create a merged entity with revenues of approximately US\$ 57B. The merged business would have considerable scale and would have a level of focus on snack foods and beverages which would be unique in the industry (Nestle has a far more diverse range of products and P&G has minimal exposure to snack foods). Mondelez pays a modest dividend, which there is considerable scope to increase, and it has a strong history of cash flow generation. It also has a strong balance sheet relative to its peers and holds a stable of enduring snack food and beverage brands.



ELEVATION CAPITAL MANAGEMENT LIMITED

PENTAL LIMITED [PTL:AU]

Research Presentation released in October 2015



PENTAL LIMITED: THE LARGEST MANUFACTURER OF SOAP IN AUSTRALIA



PENTAL LIMITED: AUSTRALIA'S 'HIDDEN GEM'

- Pental Limited ("Pental") offers products in Household Cleaning, Laundry Care, Personal Care, Fire Needs, Oral Care and Dish Washing (2015 Revenue split: 83% Australia & 17% New Zealand*).
- The Company went through a near-death experience in 2012 due to a heavy debt load and the collapse of the global market in its former chemical production business.
- The Company entered a debt restructuring arrangement with its bank in late 2012, and has now successfully emerged from the restructure with a renewed focus on the consumer goods business after it discontinued the specialty chemical business.
- The Company is now debt free (with a net cash position), and management are focusing on margins and operational efficiency improvements, delivering steady incremental growth in revenue and underlying profits since restructuring, and has recently reinstated dividend payments (~60% of NPAT).
- Additionally, the Company still has no broker/research coverage.



* AS AT 30/6/2015

PENTAL LIMITED: A PORTFOLIO OF ICONIC BRANDS

Pental is a consumer goods manufacturer with iconic Australian and New Zealand brands.

- FOCUS ON CONSUMER GOODS ONLY
- STRONG BRAND RECOGNITION
- STRONG MARKET POSITIONS
- PRIVATE LABEL MANUFACTURE INCREASINGLY IMPORTANT



PENTAL LIMITED: STRONG MARKET POSITIONS*



Bleach



Wool Wash



Firelighters



Manual Toilet Cleaner



Dishwash NZ



Bar Soaps



* PENTAL 2014 ASM PRESENTATION

PENTAL LIMITED: EARLY HISTORY (SYMEX HOLDINGS LIMITED)

- 1954 Pental was established
- 1983 Incorporated as Pental Soap
- 2000 UK chemicals major ICI sold its Uniqema oleochemicals operation in Australia to Symex, a management buyout (MBO) team in March 2000
- 2000 Symex was listed on ASX on 29 August 2000
- 2003 Symex acquired Pental Soap from Mayne for AU\$ 21M
- 2004 Symex acquired the permanent rights to manufacture and distribute Huggie, Close Up, AIM, Softly, Velvet, Sunlight, Lux Flakes, and Knights Castile for the Australian, NZ and the Pacific Islands region from Unilever
- 2006 Symex purchased Jiffy and Little Lucifer from Reckitt Benckiser
- 2011 Symex purchased Janola and White King from Sara Lee



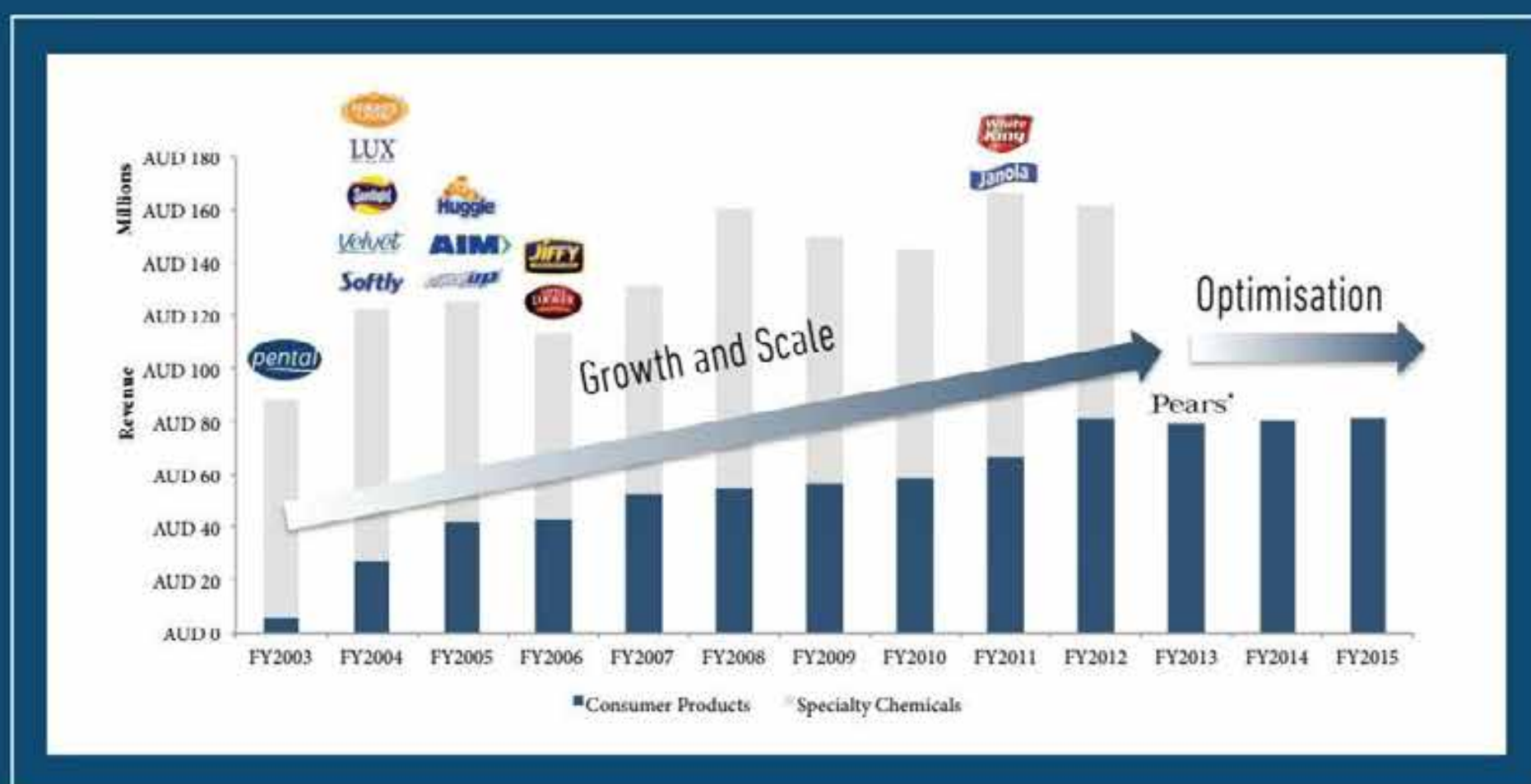
PENTAL LIMITED: RECENT BRAND ACQUISITION HISTORY (1)

2004	<p>The Company purchased the permanent rights to manufacture and distribute Softly, Velvet, Sunlight, Lux Flakes and Knights Castile for the Australia, New Zealand and Pacific Island region from Unilever for AU\$ 32M</p>	
2004	<p>The Company purchased the full and permanent rights to manufacture and distribute Huggie, a fabric softener and Close Up and AIM, toothpaste brands, in Australia, New Zealand and the Pacific Islands from Unilever for a reported AU\$ 3M</p>	
2006	<p>The Company purchased all rights associated with Little Lucifer and Jiffy firelighter brands in 2006 from Reckitt Benckiser (Price not disclosed)</p>	
2011	<p>The Company purchased all rights associated with Janola and White King bleach from Sara Lee Corporation on 7 February 2011 for AU\$ 50.1M</p>	
2013	<p>The Company entered an agreement with Unilever India to distribute Pears soap bars, shower gel and wash products in Australia and New Zealand. The agreement with Unilever India lasts for three years, ending January 2016</p>	<p>Pears®</p>



PENTAL LIMITED: RECENT BRAND ACQUISITION HISTORY (2)

- Management have expressed reservations with regard to possible acquisition opportunities under current market conditions in the FMCG sector.
- We concur with management, and believe that it is in the best interest for the Company and its shareholders for management to focus on the current capital investment programme which should maximise its operational capabilities and efficiency as well as the organic growth opportunities they have, before embarking on any acquisition/s.



PENTAL LIMITED: BOARD/MANAGEMENT CHANGES SINCE 2011

- Major management/board changes occurred in 2011 and 2012
- The current management team and most of the board members went through the 2012 restructuring together as a team. They have contributed significantly to the restructuring and the revitalisation of the Company
- However, we would like to see some further reinvigoration of the Board with a minority shareholder proposed director

CURRENT MANAGEMENT

Charlie McLeish
CEO (2013)

Albert Zago
CFO (2012)

CURRENT BOARD

Peter Robinson
*Director (2002),
Chairman (2009)*

Mel Sutton
Director/Vice-Chairman (2013)

Alan Johnstone
Director (2003)

John Rishworth
Director (2004)

John Etherington
Director (2013)

- 
- 2011 May 2011, Charlie McLeish appointed as COO/GM of Pental Products Pty Ltd
November 2011, Mark Evans resigned as Non-Executive Independent Director
 - 2012 February 2012, Robert Fraser resigned as Non-Executive Independent Director
March 2012, Greg Tremewen resigned as MD and CEO
April 2012, Alan Fisher appointed as CEO with two-year contract
June 2012, Albert Zago, the former GM of Finance at Mitre 10, appointed as CFO
 - 2013 November 2013, Charlie McLeish appointed as CEO

PENTAL LIMITED: A STORY OF TRANSFORMATION FROM 2012 TO 2013



2012

Symex Holdings Limited

*Net loss of -AU\$ 60.7M
Net Debt of AU\$ 60.9M*

*Entered a debt restructuring arrangement with ANZ
The failing specialty chemical business was discontinued*



2013

Renamed – Pental Limited

*Net Profit of AU\$ 1.9M
Reduced Net Debt to AU\$ 8.2M*

*Equity capital raised and AU\$ 10M of debt written off by ANZ
Renewed focus on Consumer Goods and Brands*

PENTAL LIMITED: PROGRESS SINCE 2012...

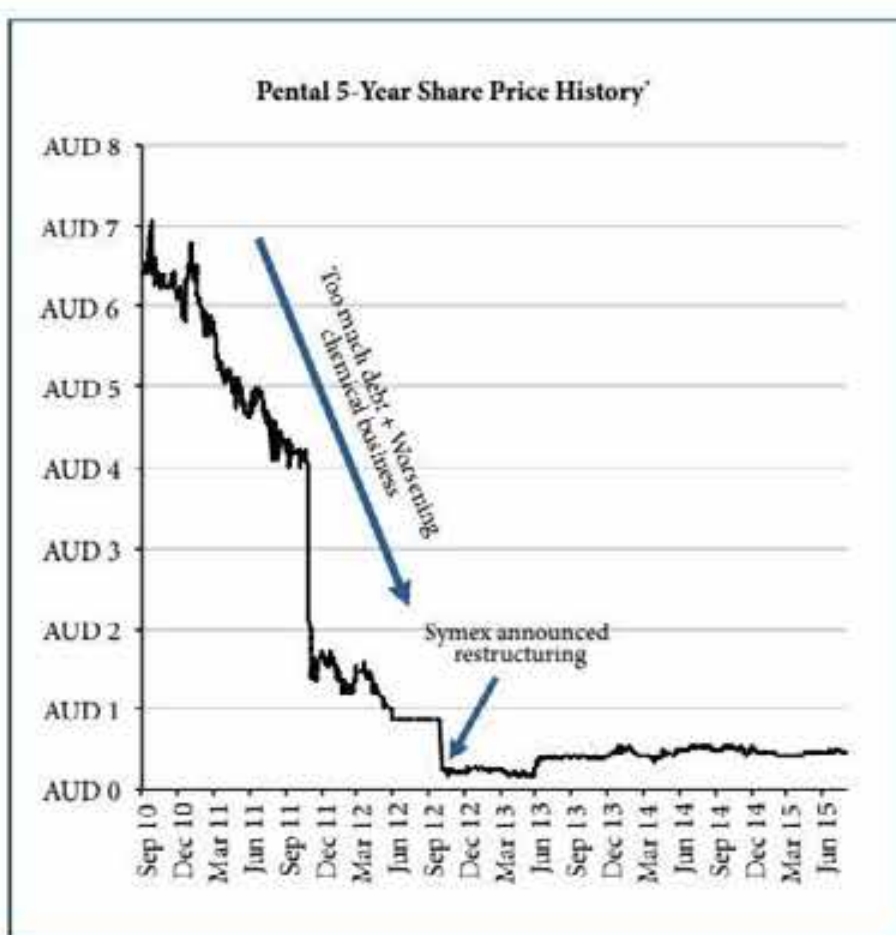
	Events	Underlying Profit Before Tax	Underlying EBITDA	Capex	Net Cash (Debt)	Dividends	
RESTRUCTURE	FY2012	Restructured group	-AUS 5.2M	AUS 5.4M	AUS 0.3M	-AUS 60.9M	Suspended
	FY2013	Relocation of bleach plant and commenced new bleach private label production	AUS 4.2M	AUS 9.6M	AUS 2.2M	-AUS 8.2M	Suspended
BUILDING	FY2014	Key bleach products previously outsourced brought in house	AUS 6.9M	AUS 9.7M	AUS 4.6M	AUS 0M	Recommended
	FY2015	AUS 5.3M of capital projects announced & on target for completion in Q3/FY2016	AUS 8.0M	AUS 10.3M	AUS 4.1M	AUS 11.0M	60% of underlying NPAT
EXPANSION	FY2016+	To complete announced capital projects, and execute on the growth strategy plan	-	-	Bulk, high speed liquid line and soap automation	Strong balance sheet	60% of underlying NPAT



SOURCE: PENTAL 2015 INVESTOR PRESENTATION

PENTAL LIMITED: SHARE PRICE MOVEMENT IN RECENT YEARS

- Too great a debt load and a prolonged deterioration of the Company's specialty chemical production business resulted in a significant loss of the Company's value since 2010. The Company's share price declined from over AU\$ 7.06* in 22 October 2010 (Market Cap = AUD\$ 77.5M*) to a low of AU\$ 0.195* in 15 November 2012 (Market Cap = AUD\$ 17.7M*) after the announcement of the restructuring.
- We first uncovered the Company in early 2014, initiated research and later initiated a position in May 2014.
- Current share price = AU\$ 0.48 (Market Capitalisation = AUD\$ 65.4M)**.



* DATA SOURCE: THOMSON REUTERS EIKON
 ** AS AT 7 OCTOBER 2015

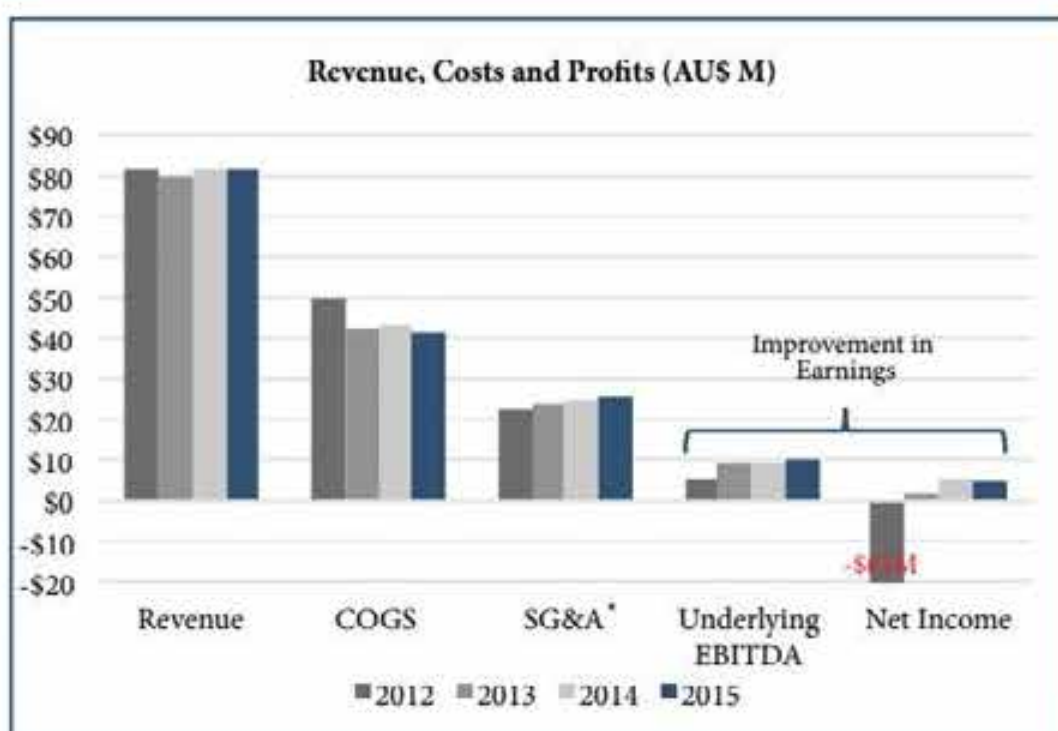
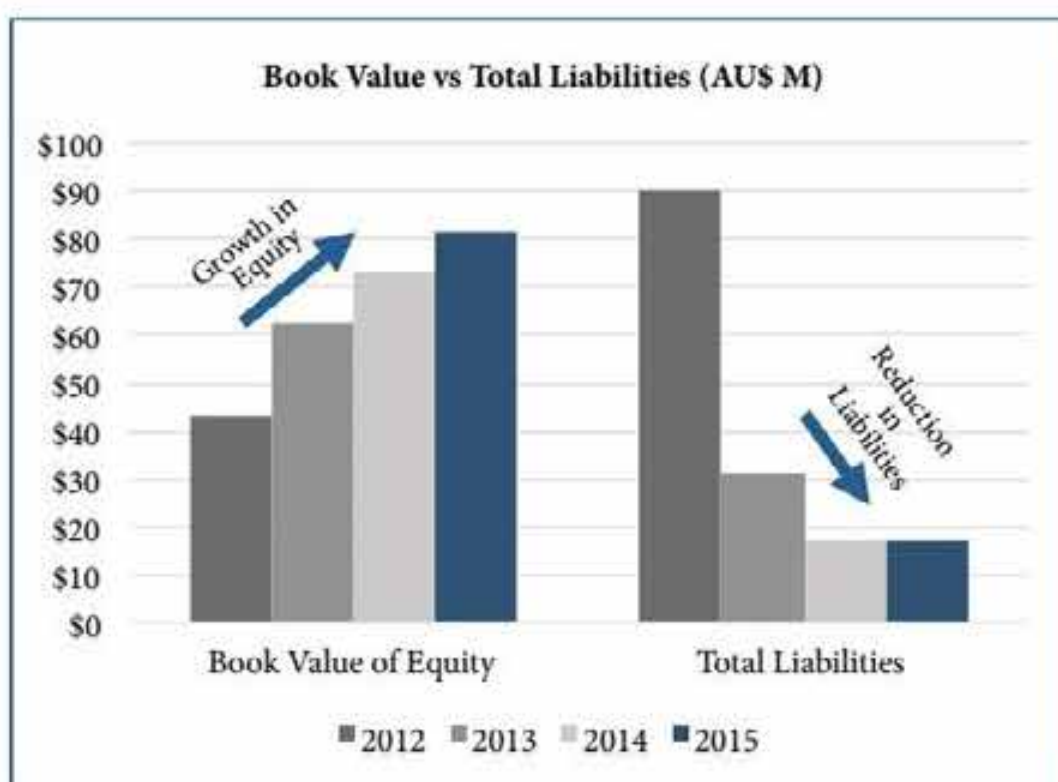
PENTAL LIMITED: CONTINUED IMPROVEMENT IN FINANCIALS SINCE 2012

BALANCE SHEET

- Positive developments in terms of debt reduction and moving to a net cash position of AU\$ 11.04M as at 28 June 2015
- Book Value has increased since the restructure of 2012 to AU\$ 0.60 per share as at 28 June 2015

INCOME STATEMENT

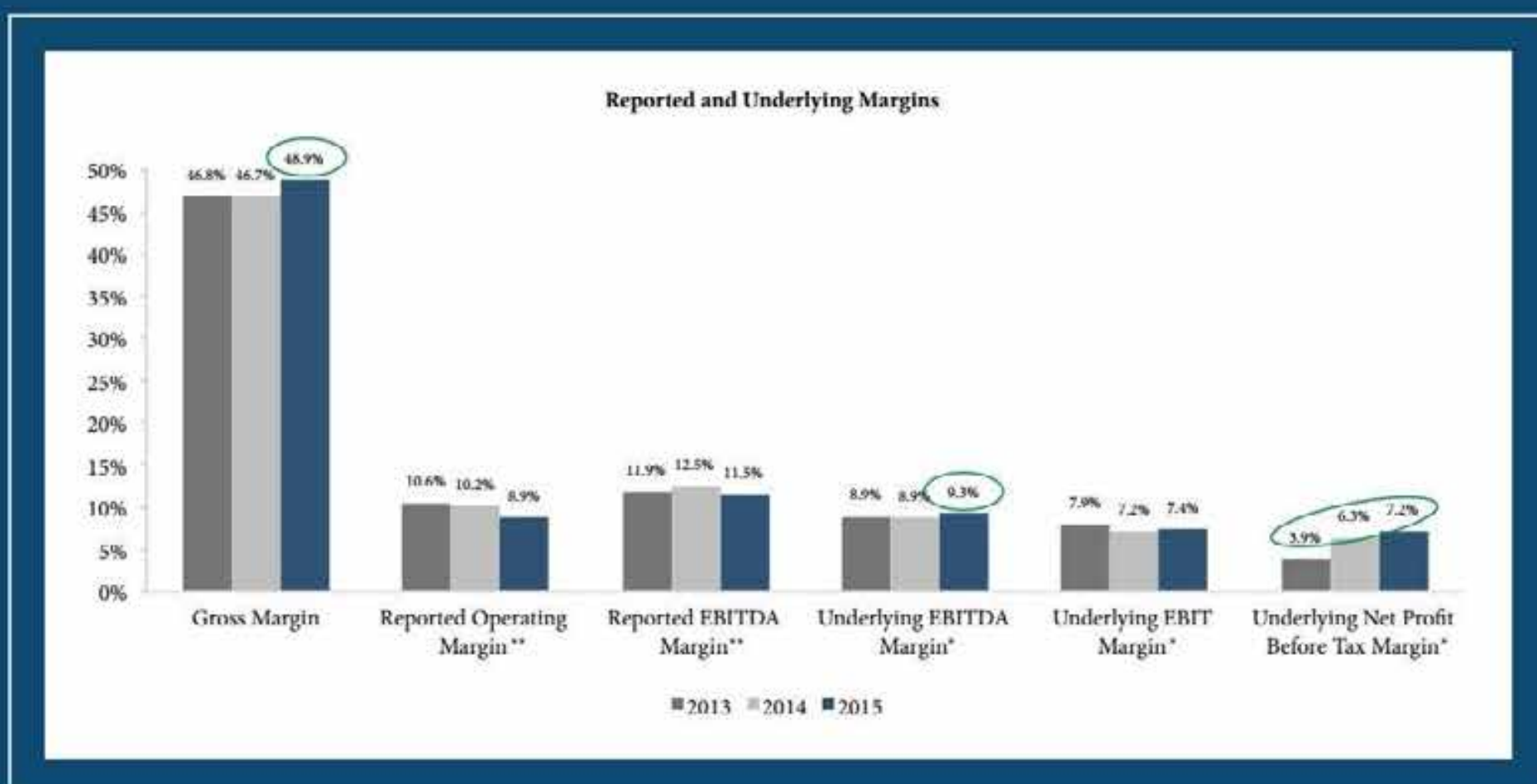
- Interest savings resulting from debt reduction will likely be reflected in higher net income on a go forward basis
- Cost of Goods Sold (“COGS”) has decreased significantly as a percentage of sales because of the closure of the specialty chemicals business
- COGS is expected to further reduce with the current investment programme



* SG&A IS SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

PENTAL LIMITED: IMPROVEMENT IN UNDERLYING MARGINS

- We note continued improvement in underlying margins* in 2015 at a pre-tax level, and believe that this will continue to flow through to the actual reported figures* in the future years as significant one-off items are minimised after the employee restructuring and the current capital investment programme are completed.



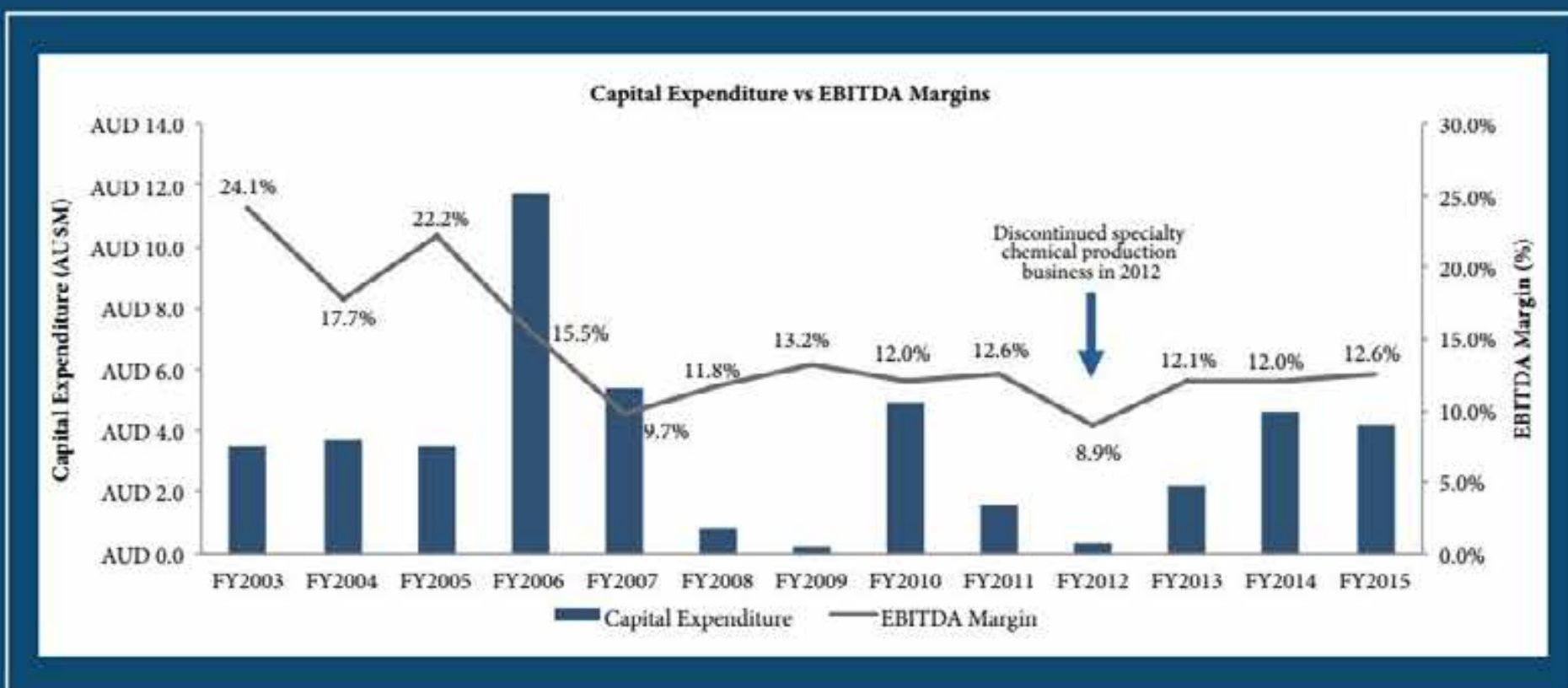
* THE NON-IFRS UNDERLYING FIGURES ARE PROVIDED BY THE COMPANY IN ITS FY15 FINANCIAL REPORT, AND THEY EXCLUDE SIGNIFICANT ONE-OFF ITEMS

** THE REPORTED FIGURES ARE IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

*** DATA SOURCE: THOMSON REUTERS EIKON AND COMPANY FY15 RESULTS PRESENTATION

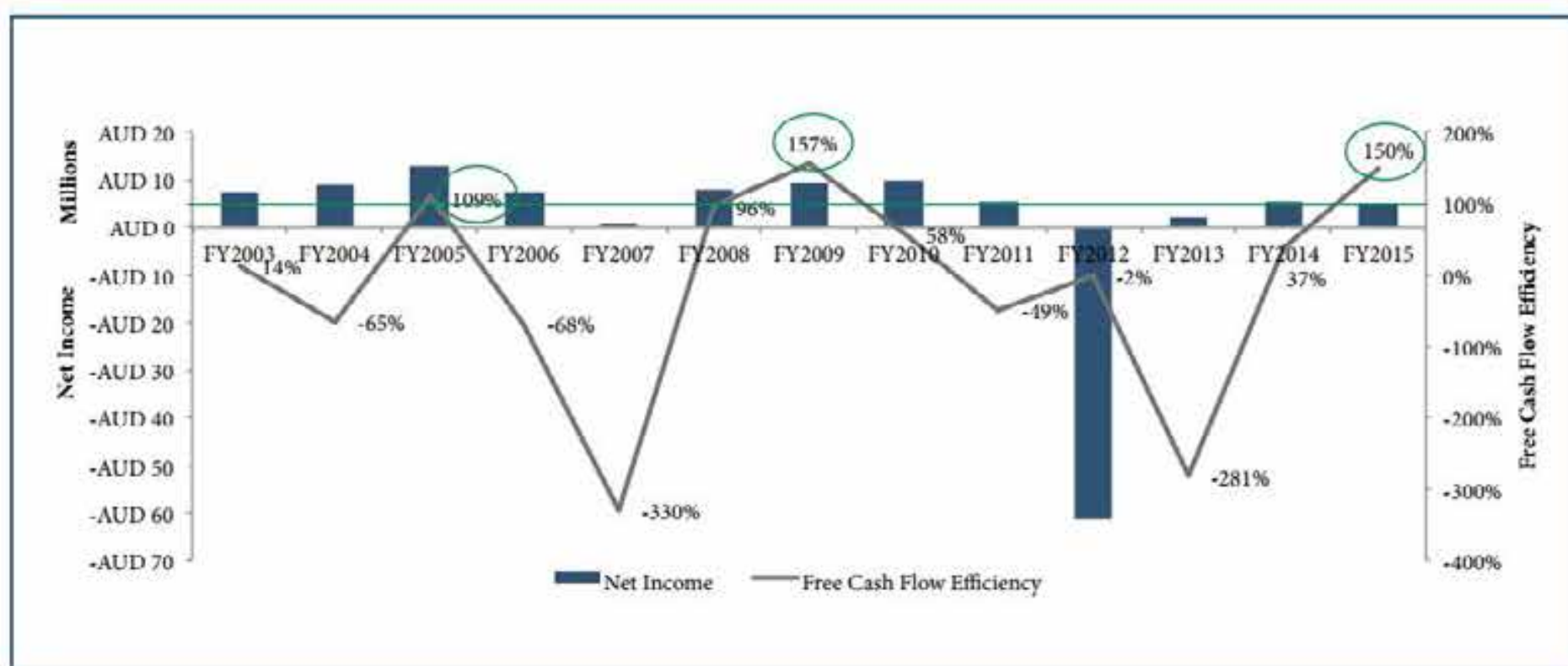
PENTAL LIMITED: CAPITAL EXPENDITURE

- The chart below highlights the volatile nature of the Company's EBITDA margins in the past when the Company's specialty chemical production business was still in operation until 2012.
- The major capital expenditure in 2014 was the relocation and upgrade of the bleach manufacturing operations from the Port Melbourne site to the Shepparton site, which had a total cost of AUD 4.424M.
- The Company announced an AUD 5.3M capital project in February 2015 which aims *"to bring the key parts of the operations up to best practice standards within the next 6-12 months and achieve significant cost savings moving forward"*. Management are expecting the project to be completed by Q3 FY2016.
- We expect the EBITDA margin to improve in the near future as the capital projects improve efficiency and delivers further cost reductions.



PENTAL LIMITED: IMPROVEMENT IN FREE CASH FLOW GENERATION

- It is important to understand a company's ability to generate cash without external financings. We look at measures such as Free Cash Flow (FCF*) Efficiency** to help gauge the resources available for strategic opportunities such as making acquisitions, investing in the business, strengthening the balance sheet, and to assess the strength of a company's earnings performance.
- Historically, the Company has only delivered >100% FCF Efficiency three times (2005, 2009, 2015) since 2003 – driven by the need to undertake reinvestment capex.
- Post indicated capex in the next two years, and with a renewed focus on the consumer goods business, our expectation for management is to maintain >100% Free Cash Flow Efficiency, as other well run consumer goods companies do (e.g., Edgewell Personal Care and Clorox both have a 5yr average FCF Efficiency of 115%***).



DATA SOURCE: THOMSON REUTERS EIKON

* FREE CASH FLOW (FCF) IS DEFINED AS CASH FROM OPERATING ACTIVITIES MINUS CAPITAL EXPENDITURES

** FREE CASH FLOW EFFICIENCY IS DEFINED AS FREE CASH FLOW / NET INCOME AND IT SHOWS HOW EFFICIENT THE BUSINESS IS AT GENERATING FREE CASH FLOW VERSUS ITS REPORTED/ACCOUNTING NET INCOME

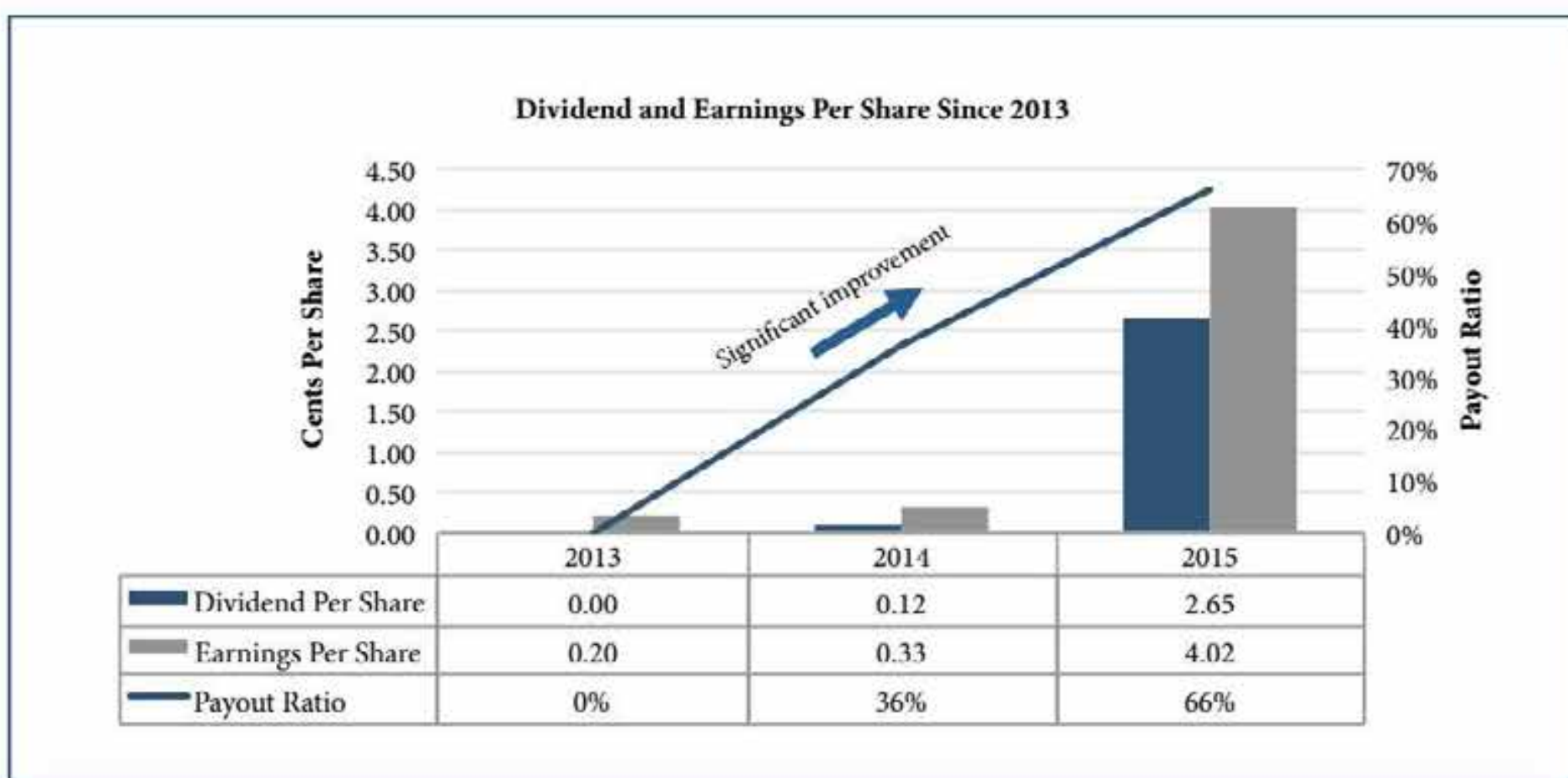
*** EDGEWELL PERSONAL CARE INVESTOR KICKOFF 2015 PRESENTATION - 2 JUNE 2015, CLOROX FIGURE BASED ON THOMSON REUTERS EIKON DATA

PENTAL LIMITED: DIVIDEND REINSTATED IN FY2014

- The Company advised the market in its 1H FY2014 report that it will evaluate the reinstatement of dividend at the end of FY2014. By the end of FY2014, it reinstated the dividend and paid out 36% of Net Profit for FY2014.
- In early 2015, the Company announced that it was targeting a payout ratio of 60%. The actual payout ratio for FY2015 was 66%.
- Current Gross Dividend Yield = 5.5%*.

“Furthermore, with a strong balance sheet and more predicable underlying cash flows, subject to Board’s overall discretion on dividend payments, Pental will target to distribute 60% of the company’s net profit after tax to shareholders (via interim and final dividends), commencing with the interim dividend detailed below, provided current conditions continue as is and no unforeseen events occur.”

- Pental FY2015 Half Year Report



* BASED ON SHARE PRICE OF AU\$ 0.48 AS AT 7 OCTOBER 2015

PENTAL LIMITED: COMPARABLE COMPANIES

– VALUATION (1)

- Favourable valuation metrics on both an absolute, and relative basis to companies operating in the same sector globally

	P/E	PRICE / SALES	EV / EBITDA	PRICE / CF	PRICE / BV	GROSS DIV. YIELD
Aceto	21.5x	1.5x	11.2x	100.2x	3.3x	0.8%
Asaleo Care	276.7x	1.8x	14.9x	10.3x	2.9x	5.1%
Bunzl	27.7x	1.0x	15.0x	20.3x	7.2x	2.0%
Church & Dwight	26.2x	3.4x	15.2x	19.5x	5.7x	1.5%
Clorox	22.8x	2.7x	12.8x	17.6x	129.7x	2.5%
Colgate Palmolive	29.3x	3.5x	14.6x	18.8x	129.6x	2.3%
Henkel	23.9x	2.3x	13.0x	18.7x	3.2x	1.4%
Johnson & Johnson	18.4x	3.7x	10.6x	15.4x	3.7x	3.0%
Procter & Gamble	26.4x	2.6x	14.6x	13.7x	3.2x	3.5%
PZ Cussons	28.9x	1.6x	12.9x	36.0x	2.9x	2.6%
Reckitt and Benckiser	22.9x	5.0x	16.7x	20.5x	6.9x	2.2%
Unilever	18.9x	2.2x	13.1x	18.4x	6.9x	2.3%
Vinda International Holdings	19.2x	1.7x	13.0x	16.0x	2.9x	1.1%
Pental	10.8x	0.8x	5.9x	5.5x	0.8x	5.5%
Peer Group Median Average	23.9x	2.3x	13.1x	18.7x	3.7x	2.3%

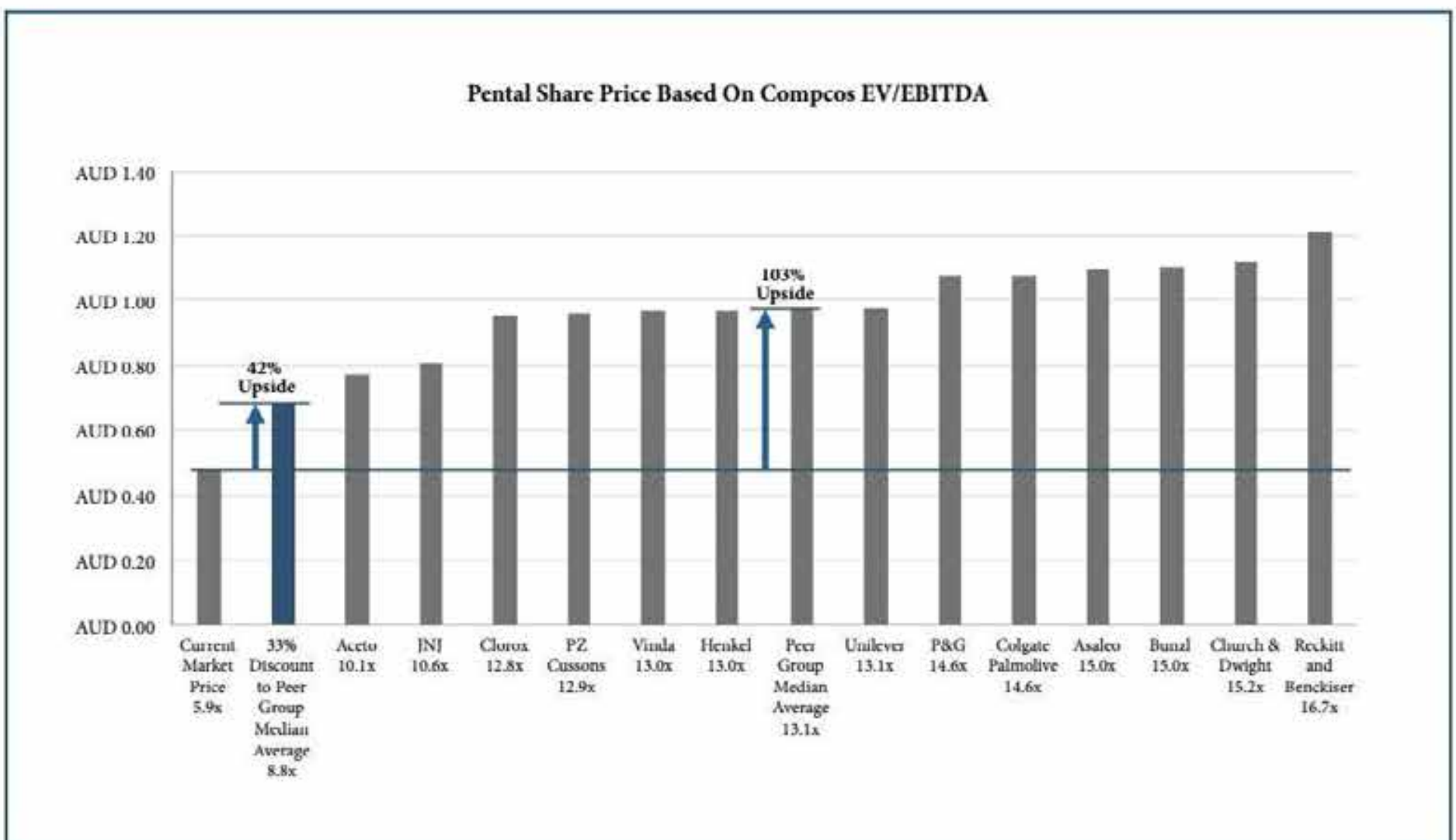


DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 OCTOBER 2015
CF = CASH FLOW, BV = BOOK VALUE

PENTAL LIMITED: COMPARABLE COMPANIES

– VALUATION (2)

- If Pental trades at the peer group median average of 13.09x EBITDA, the implied share price is AU\$ 0.975, which suggests an upside potential of 103%.
- To be conservative, if we placed a 33% discount to the above EV/EBITDA multiple, the implied share price based on a 8.8x EBITDA equates to AU\$ 0.68, which suggests an upside potential of 42%.



* BASED ON SHARE PRICE OF AU\$ 0.48 AS AT 7 OCTOBER 2015

PENTAL LIMITED: COMPARABLE COMPANIES

– MARGINS AND RETURNS

- Our analysis suggests there still exists room for further margin improvement. The Company could also repurchase the Shepparton facility, continue its capex programme and undertake a share buyback to place a conservative amount of debt on the balance sheet to improve returns to shareholders without the risk/s inherent in any acquisition.

	NET MARGIN	GROSS MARGIN	EBITDA MARGIN	EBIT MARGIN	ROE	ROA	NET DEBT TO EV
Aceto	6.1%	24.8%	14.3%	12.1%	13.7%	7.3%	8.0%
Asaleo Care	0.5%	41.9%	13.1%	9.2%	NA	0.45%	17.7%
Bunzl	3.4%	24.3%	7.4%	6.0%	26.1%	6.5%	14.8%
Church & Dwight	12.6%	44.1%	22.4%	19.6%	20.2%	9.6%	7.1%
Clorox	10.7%	43.6%	21.0%	18.0%	445.6%	14.4%	10.5%
Colgate Palmolive	12.6%	58.7%	26.9%	24.3%	204.7%	17.1%	8.3%
Henkel	9.9%	47.5%	18.3%	16.0%	15.0%	8.2%	0.8%
Johnson & Johnson	22.0%	70.4%	35.4%	30.1%	21.6%	12.4%	Net Cash
Procter & Gamble	11.2%	49.9%	20.9%	16.8%	13.2%	6.5%	8.9%
PZ Cussons	6.4%	39.8%	16.4%	14.0%	11.2%	5.6%	10.3%
Reckitt and Benckiser	18.8%	57.7%	26.6%	24.7%	24.9%	10.9%	4.0%
Unilever	10.7%	41.4%	16.8%	14.5%	33.2%	11.8%	9.6%
Vinda International Holdings	7.4%	30.2%	14.6%	10.0%	14.0%	5.5%	20.6%
Pental	6.3%	49.0%	12.6%	10.0%	6.6%	5.4%	Net Cash
Peer Group Median Average	10.7%	43.6%	18.3%	16.0%	20.9%	8.2%	9.0%



DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 OCTOBER 2015

PENTAL LIMITED: PENTAL VS. ASALEO CARE (1)

We compare Pental to its ASX listed peer – Asaleo Care (AHY.ASX) – A personal care and hygiene company that operates in Australia, New Zealand and Fiji.



MARKET CAP = AU\$ 65.4M*
REVENUE = AU\$ 81M**



MARKET CAP = AU\$ 1.11B*
REVENUE = AU\$ 630M**



* AS AT 7 OCTOBER 2015
** LATEST ANNUAL REPORTS

PENTAL LIMITED: PENTAL VS. ASALEO CARE

(2)

- Pental is significantly cheaper, with higher margins than ASX listed peer – Asaleo Care
- Pental has lower financial leverage, with a net cash position
- However, we note that Pental is a much smaller company – revenue AU\$ 81M* for Pental vs AU\$ 630M* for Asaleo Care

VALUATION**

	P/E	PRICE / SALES	EV / EBITDA	PRICE / CF	PRICE / BV	GROSS DIV. YIELD
Asaleo Care	276.7x	1.8x	14.9x	10.3x	2.9x	5.1%
Pental	10.8x	0.8x	5.9x	5.5x	0.8x	5.5%
Peer Group Median Average	23.9x	2.3x	13.1x	18.7x	3.7x	2.3%

MARGINS & RETURNS**

	NET MARGIN	GROSS MARGIN	EBITDA MARGIN	EBIT MARGIN	ROE	ROA	NET DEBT TO EV
Asaleo Care	0.5%	41.9%	13.1%	9.2%	NA	0.45%	17.7%
Pental	6.3%	49.0%	12.6%	10.0%	6.6%	5.4%	Net Cash
Peer Group Median Average	10.7%	43.6%	18.3%	16.0%	20.9%	8.2%	9.0%

* LATEST ANNUAL REPORTS

** DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 OCTOBER 2015

PENTAL LIMITED: RECENT INDUSTRY M&A TRANSACTIONS

- Below we have categorised a number of comparable transactions undertaken in the industry in which Pental operates (or similar industries). We find that the most comparable transactions are the 2015 acquisition of Colgate Palmolive's Australian & New Zealand brands by Henkel, the 2014 acquisition of the Poland based 'E' laundry brands by Henkel and the 2013 acquisition of Domtar by Associated Hygiene (*Note: Pact Group's acquisition of Jalco Group (a contract manufacturer) is less relevant given the lack of a brand portfolio in our view*).
- Clorox, in our opinion, is the most likely acquirer of Pental. Clorox has a focus on bleach and cleaning products and may seek to gain further exposure to the Australasian market by acquiring a competitor. Currently, Clorox brand bleach competes directly with Pental's White King and Janola and Clorox's 'Stain Remover and Colour Booster' product competes with Pental's laundry care products such as Softly.

Acquirer	Target	Deal Status	Date	EV (US\$)	EV/ EBITDA	P/ Revenue
Domtar Corporation	Associated Hygienic Products	Completed	May 2013	\$0.27B	8.8x	0.9x
Genomma Lab	Prestige Brands	Rejected	April 2012	\$1.33B	9.3x	3.95x
Sanofi	Chattem	Completed	December 2009	\$1.9B	13.3x	4.8x
Henkel	Spotless Group	Completed	June 2014	\$1.06B	12.1x	3.36x
Henkel	"E" Brands (Eastern Europe)	Completed	February 2014	\$0.06B	-	0.83x
Henkel	Colgate Palmolive (Australia/NZ)	Completed	May 2015	\$0.25B	-	2.0x
Pact Group	Jalco Group	Completed	September 2015	\$0.06B	6.5x	-
Average:				\$0.7B	10.0x	2.65x



PENTAL LIMITED: CAPITAL STRUCTURE & OWNERSHIP

EQUITY

- Pental now has an uncomplicated capital structure, with all former piggy back options and loyalty options exercised and/or expired past the recapitalisation
- Currently, Pental has 136.25 million shares outstanding, with a market capitalisation of AU\$ 65.4M based on share price of AU\$ 0.48*

DEBT

- The Company has no debt with AU\$ 11.04M net cash as at 30 June 2015

CONCENTRATED OWNERSHIP

- Top 10 investors own a combined 72.3% of the Company, with Elevation Capital currently holding 8.17%* on behalf of clients/associates

Top 10 Shareholders*	Number of Shares*	%*
Johnstone (Alan Graham)**	29.85m	21.91%
Allan Gray Australia Pty Ltd	18.44m	13.53%
Homewood (John Rostyn)	17.75m	13.03%
Elevation Capital Management Ltd	11.13m	8.17%
Johnson (Garry George)	5.56m	4.08%
Labelmakers Group Pty Ltd	5.56m	4.08%
Robinson (Peter John)**	3.97m	2.92%
PMSF Company Pty Ltd	2.51m	1.84%
Vanward Investments Ltd	2.17m	1.59%
Rathvale Proprietary Ltd	1.54m	1.13%
Total:	98.47m	72.28%



* DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 OCTOBER 2015 AND ELEVATION CAPITAL RECORDS

** DIRECTORS OF THE COMPANY (INCLUDING JOHN RISHWORTH) OWN A COMBINED 24.83% OF THE COMPANY AS AT 30 JUNE 2015

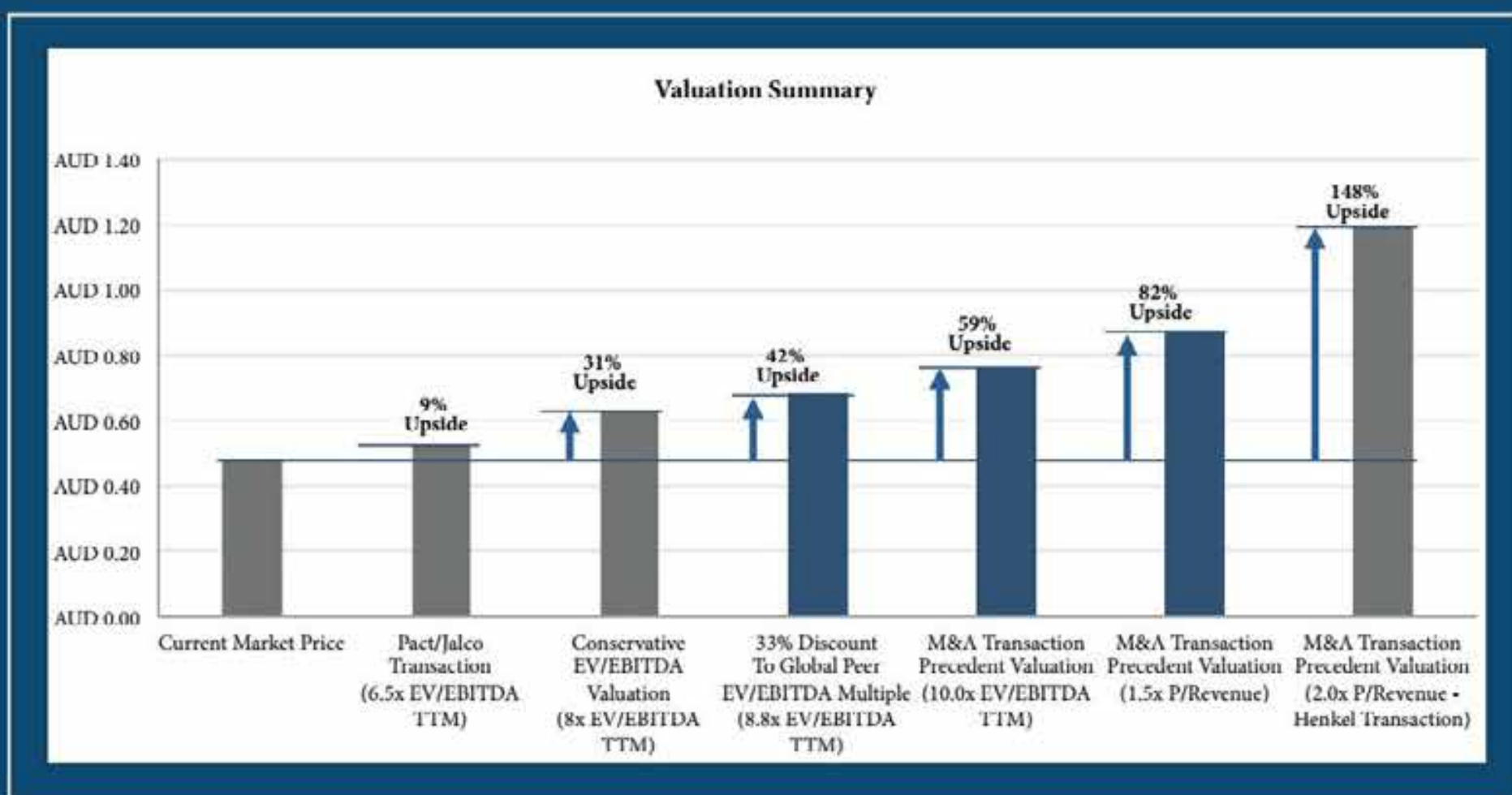
PENTAL LIMITED: ELEVATION CAPITAL'S VALUATION RANGE

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:

**AUS\$ 0.63 -
AUS\$ 1.19**
PER SHARE

UPSIDE POTENTIAL
RANGE:

31% - 148%



CURRENT MARKET PRICE = AUS\$ 0.48 (AS AT 7 OCTOBER 2015)

PACT GROUP ACQUIRED JALCO GROUP (A CONTRACT MANUFACTURER) AT 6.5X EBITDA (TTM) IN SEPTEMBER 2015

CONSERVATIVE EV/EBITDA VALUATION IS BASED ON 8X EBITDA (TTM) - ASSUMES NO GROWTH OR EFFICIENCY GAINS FROM CURRENT CAPITAL INVESTMENT PROGRAMME

33% DISCOUNT TO GLOBAL PEER EV/EBITDA (TTM) MULTIPLE - WE DISCOUNTED THE AVERAGE MULTIPLE OF 13.09X BY 33%, WHICH RESULTED IN A MULTIPLE OF 8.8X

M&A TRANSACTION PRECEDENT VALUATION IS BASED ON EV/EBITDA, AND IS BASED ON THE AVERAGE OF SELECTED M&A TRANSACTION EV/EBITDA MULTIPLE OF 10.0X EBITDA TTM

M&A TRANSACTION PRECEDENT VALUATION (1.5X P/REVENUE) IS BASED ON THE AVERAGE P/REVENUE MULTIPLE OF THREE COMPARABLE M&A TRANSACTIONS

M&A TRANSACTION PRECEDENT VALUATION (2.0X P/REVENUE) IS BASED ON THE P/REVENUE MULTIPLE IN THE RECENT HENKEL/COLGATE PALMOLIVE TRANSACTION

PENTAL LIMITED: KEY OPPORTUNITIES

ORGANIC GROWTH STRATEGY

- As the Company went through restructuring and building stages (2012-2015), management recently released their organic growth strategy (see slides on the right). We believe some of the strategies have higher probabilities of success (commercial & industrial channels, product innovation, productivity savings, etc.) than exporting. However, exporting could be the key to delivering more significant growth to the Company if executed successfully

PRODUCTIVITY/MARGIN IMPROVEMENT

- As mentioned in the Capex section, Pental is currently investing in significant upgrades to its manufacturing and distribution facilities at Shepparton, Victoria. These include measures which will increase production capacity, reduce wastage and automate processes allowing for a reduction in personnel costs and improved production efficiency to allow growth in private label and bulk industrial/commercial. We believe this is the “low hanging fruit” that the Company should complete before investing significant resources on other growth strategies

M&A ACTIVITY

- Henkel recently acquired Colgate Palmolive’s brands in Australia and New Zealand. They paid € 220M (AU\$ 320.20M) for Colgate Palmolive’s brands which generated € 110M (AU\$ 160.60M) of revenue. This multiple of 2.0x revenue generates a valuation if applied to Pental of AU\$ 162.4M or AU\$ 1.19 per share. We believe that Pental would make a sensible acquisition target for one of its larger competitors (such as Clorox) in the event that one of these companies were seeking to increase/initiate exposure to Australasia

BOLT-ON ACQUISITIONS

- We have listed acquisitions as a source of potential risk. We believe the best course of action for Pental in the short to medium term is to focus on reducing costs and increasing margins – driving cash flow and capital returns to shareholders. However, in the long term – if Pental is not acquired - bolt on acquisitions may be a source of opportunity, provided management are patient and acquire the right businesses at the right price. Small private businesses producing homecare or personal care products may make good targets, particularly given Pental is in a better position than many to negotiate with supermarkets and retailers as it has a larger product base from which to build its negotiating position



SOURCE: PENTAL FY2015 INVESTOR PRESENTATION

PENTAL LIMITED: KEY RISKS

COMPETITION

- Levels of competition are moderate to high. Pental operates in an industry in which producers struggle to offer points of distinction for their products. In our view, the Company is approaching this threat in the correct way, by seeking to minimise costs and increase margins. However, margin squeeze from retailers in the supermarket industry in Australia and New Zealand is also a risk to Pental. Australian supermarkets are increasingly competitive and as a result have to squeeze their suppliers in order to maintain their own margins

MACRO ENVIRONMENT

- Macroeconomic conditions in Pental's home market are difficult, with Australia experiencing a decline in aggregate demand related to a decline in consumer confidence. Our valuation has priced in no organic growth for the next financial year (only cost savings such as interest) to reflect this and maintain conservatism with our valuations

MARKET LIMITATIONS

- Pental currently faces geographical and industry constraints. It holds a significant market share in a number of its product segments, most notably the household cleaning, laundry care and personal care segments, and it is doing a good job of maintaining its market share (growing it in some areas). However, the market is only so big in Australia and New Zealand and this imposes limits on Pental's growth. This limitation is one explanation for the markets reluctance to value Pental at the same multiples as its peers
- The possibility of an export channel could reduce this risk significantly

ACQUISITION RISKS

- We perceive a risk that management may try to expanding the business through potentially larger acquisitions in order to combat the limitations discussed in the previous slide
- We are pleased that management have expressed reservations with regard to possible acquisition opportunities under current market conditions in the FMCG sector
- Pental concentrating on organic growth rather than acquisitions is central to our investment thesis and management need to further prove up their operational capabilities before embarking on major acquisitions in our opinion

LIQUIDITY

- From an investors point of view, the liquidity of Pental's shares is a source of risk. Currently, the market capitalisation of the Company is AU\$ 65.4M*, meaning it falls firmly into the small-cap category, with shares thinly traded

* AS AT 7 OCTOBER 2015

PENTAL LIMITED: ELEVATION CAPITAL SUGGESTIONS TO THE BOARD

We would like to suggest the following actions for the Board/Management to consider:

- Exercise the option to repurchase the Shepparton facility after 1/7/2017 (it was sold in 2013 for AU\$ 6.0M) to further reduce the cost of operating at the Shepparton location
- Post capex requirements return excess capital to shareholders and place a conservative amount of debt on the balance sheet ~AU\$ 5M – AU\$ 10M to improve returns to shareholders and maintain management focus
- Introduce a AU\$ 2.5M share buyback programme with a target maximum buyback price of 10% discount to Book Value per share (currently \$0.60) to take advantage for the benefit of all shareholders what we believe to be an attractive discount to the Company's intrinsic value based on current share price levels
- Reinvigoration of the Board from within the supportive shareholder base (to maintain an alignment of interest) and additionally from within consumer products industry globally. However a special focus should be on capital allocation skills
- Acquisitions should only be considered post these steps and should be small in size (not transformative). Potential acquisitions must be based on low growth expectations, low synergy benefits and compared to an investment/repurchase of Pental shares at the prevailing market price and the current discount to intrinsic value



THE SHEPPARTON FACILITY AT 48 DRUMMOND RD., SHEPPARTON VIC 3630, AUSTRALIA

PENTAL LIMITED: ELEVATION CAPITAL CONCLUSION

Conclusion

- Our October 2015 update on Pental reconfirms our original investment thesis. We find the Company to be significantly undervalued by the market. Pental has the potential to improve margins through targeted capital expenditure and cost cutting as well as being a prime target for M&A activity (particularly in the wake of Henkel's recent acquisition)
- It also has a stable of highly recognisable brands in the Australia and New Zealand household goods industry and management are developing a positive track record of maintaining the market share of their leading brands (even growing them in some cases)
- Management (and the Board) have proven themselves more adept at allocating capital (than past management), with debt reduction the key focus during 2012-13 and the current focus on upgrading plant (The next focus has to be to improve returns on invested capital)
- We believe that the case for an investment in Pental has grown stronger over the past year, with the discount to intrinsic value remaining elevated (as it was one year ago), but with substantially reduced downside risk
- A successful execution of the organic growth strategy plan could potentially add significant value and growth opportunities to the business
- Currently, the Elevation Capital Value Fund and Separate Accounts managed by Elevation Capital hold an 8.17%* ownership interest in the Company
- Elevation Capital's Intrinsic Value Range of AU\$ 0.63 – AU\$ 1.19 suggest the shares are currently trading at a 31% - 148% discount to this estimated intrinsic value range*



ELEVATION CAPITAL MANAGEMENT LIMITED

SKYLINE ENTERPRISES [SLE:UNLISTED.CO.NZ]


Research Presentation released in December 2015





SKYLINE ENTERPRISES: THE ICONIC QUEENSTOWN ADVENTURE...

From the erecting of a chalet on Bob's Peak in 1964 to today, through a series of acquisitions and development, Skyline Enterprises has grown into a global tourism operator, casino operator and property investor.



6
GONDOLA AND LUGE SITES WORLDWIDE

\$162.9M*
ANNUAL SALES

4
COUNTRIES AROUND THE WORLD

1964
FOUNDED IN QUEENSTOWN, NEW ZEALAND

* SKYLINE 2015 ANNUAL REPORT

SKYLINE ENTERPRISES: A LONG & SUCCESSFUL HISTORY OF GROWTH

1964 Chalet on Bob's Peak opened by Skyline Tours Limited.

1966 Skyline Enterprises incorporated with the purpose of installing a Gondola and restaurant on Bob's Peak.

1971 Skyline acquired all shares in Queenstown Tourist Company, operators of Mountain View Lodge.

1975 Subsidiary company Skyline Tours commissioned and operated Blue Peaks Lodge, Queenstown.

1978 Leisure Lodge Motor Inn, Dunedin, completed and operated on a 50/50 basis with SIMU.

1981 Skyline purchased the balance of Leisure Lodge shares from SIMU.

1985 Skyline Skyrides in Rotorua opened.

1994 Christchurch Casino opened.

1997 Queenstown Luge opened.

1999 Dunedin Casino opened.



2000 Sky Alpine Casino in Queenstown opened.

2003 Opening of Luge at Mont Tremblant in Quebec, Canada.

2004 Skyline Enterprises invested about \$60 million in buying eight prime properties in Central Queenstown

2005 Opening of Luge on Sentosa Island, Singapore

2008 Stake sold in the Crown Plaza, Christchurch and Christchurch Casino holdings increased.

2011 Skyline Queenstown commence a trial season for mountain biking - New Zealand's first Gondola assist bike lift.

2011 Skyline Enterprises purchases Totally Tourism, an umbrella company that operates iconic tourism brands including The Helicopter Line, Mitre Peak Cruises, Milford Sound Scenic Flights, Queenstown Combos, Challenge Rafting, Harris Mountains Heli-Ski, Air Fiordland, Wanaka Flightseeing and Glacier Helicopters.

2012 Skyline Enterprises announces it's sixth Luge operation to be built in Tongyeong City, Korea.

2015 Skyline announces licensing model for Skyline Luge.

SKYLINE ENTERPRISES: TOURISM, ACCOMMODATION, CASINOS AND PROPERTY



TOURISM & ACCOMMODATION
59% of Operating Profit



CASINO

31% of Operating Profit



33% Ownership

PROPERTY INVESTMENT

9% of Operating Profit



OTHERS

1% of Operating Profit



SKYLINE ENTERPRISES: NZ TOURISM OPERATIONS – SKYLINE & LUGE

- Skyline operates gondolas, luge tracks and the associated restaurant and merchandise/gift shops in both Queenstown and Rotorua.
- Frequent re-investment into existing facilities is a key part of Skyline's Modus Operandi a necessary investment in enhancing the experience to increase spend and re-visit per customer and having the capacity to cater for ever-increasing customer numbers.



SKYLINE ENTERPRISES: INCREASING GONDOLA RIDERS AND DINERS

682,555

Annual cableway riders in Queenstown

494,200

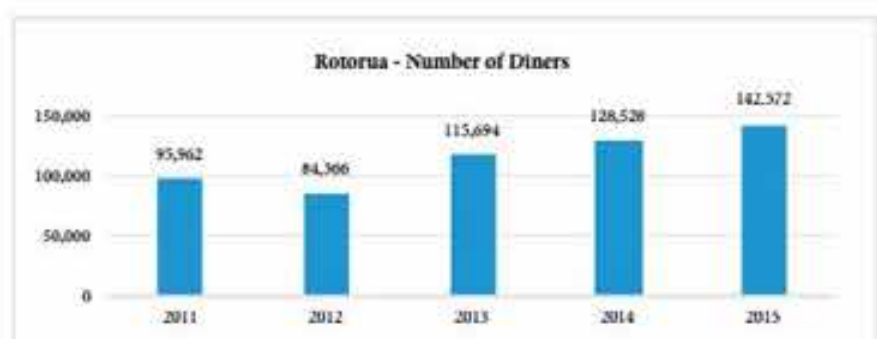
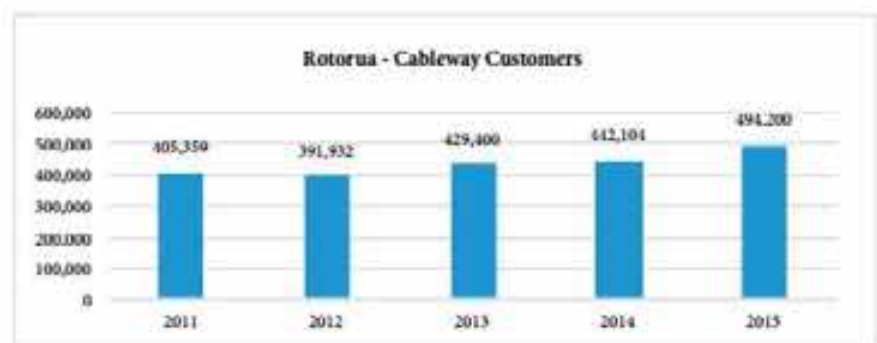
Annual cableway riders in Rotorua

+6.6%

Growth in annual cableway riders in Queenstown

+5.1%

Growth in annual cableway riders in Rotorua



* * SKYLINE 2015 ANNUAL REPORT, ANNUALISED GROWTH OF CABLEWAY RIDERS FROM 31/12/2011 TO 31/12/2015

SKYLINE ENTERPRISES: NZ TOURISM OPERATIONS – TOTALLY TOURISM

In August 2011, Skyline acquired Totally Tourism Ltd. (“Totally Tourism”). The Company is still dealing with integration, synergy extraction and cross-selling and a loss making enterprise in the ownership stake in Milford Sound Flights Limited.



From the icon locations of Mount Cook, Twizel, Franz Josef, Fox Glacier and Queenstown.

The Helicopter Line takes visitors on a scenic flight to discover New Zealand’s National Parks, glaciers, mountains and lakes, often with a snow landing.



Mitre Peak Cruises offers an upclose and personal experience of the majestic natural beauty of Milford Sound. Explore cascading waterfalls, towering cliffs, rugged peaks, lush rainforest, seals, and dolphins.

Combine the cruise with their luxury coach from either Queenstown or Te Anau into Milford Sound.



Milford Sound Scenic Flights is one of the region’s most experienced flightseeing operators, flying visitors to and from Milford Sound for over 20 years.



Glacier Helicopters on the West Coast pioneered glacier and snow landings in New Zealand in 1970.

Offering scenic helicopter flights that include a glacier landing enable visitors to interact and enjoy some of the most spectacular wonders of the natural world.



Harris Mountains Heli-Ski has extensive terrain, small groups and personalised guiding. HMH takes heli-skiers/boarders above and beyond their expectations in Queenstown, Wanaka or Mount Cook. Each group of 4 clients of similar ability ski/board with a qualified and experienced guide.

Daily options include three, four and seven run days and heli-ski charters.

SKYLINE ENTERPRISES: NZ TOURISM OPERATIONS – TOTALLY TOURISM



Scenic plane flights with Air Fiordland from Queenstown and Te Anau into Milford Sound. View the powerful and dramatic scenery of the Fiordland National Park from above and then from below on a boat cruise – the famous fly cruise fly package. Flight, coach and cruise options also available from Queenstown and Te Anau.



Wanaka Flightseeing offers flights from the famous Milford Sound to the spectacular West Coast Glaciers. Enjoy uninterrupted window viewing over the Southern Alps, remote Doubtful Sound and rugged Mount Cook– or combine a scenic jet boat safari on the Dart River.



Challenge Rafting operates exciting half-day trips on the Shotover and Kawarau Rivers. The Kawarau River provides an exhilarating trip for first time rafters. The Shotover River provides the challenge for those looking for extra excitement and thrills.



The Station and Queenstown Information Centres guide visitors through the maze of tours and activities on offer. Located centrally in Queenstown, both centres are a one-stop shop for all that Queenstown can offer. The Station also provides booking services for Tour Operator Groups and FIT clients.

SKYLINE ENTERPRISES: ACCOMMODATION AND HOSPITALITY

- Skyline opened what is now known as the Blue Peaks Lodge and Apartments in 1975, Blue Peaks range from self-serviced apartments to fully serviced rooms.
- Skyline opened the 'Leisure Lodge' in Dunedin in 1975 this is known as the Mercure leisure lodge and along with accommodation provides full restaurant and bar and conference facilities.
- Occupancy Rates at both the Dunedin and Queenstown sites have been steadily increasing over the past 5 years.



SKYLINE ENTERPRISES: CASINO OPERATIONS

- The Christchurch Casino, opened in 1994, was originally a 50% shareholding. Skyline purchased the remaining 50% for NZ\$ 80 Million in December 2012 representing the largest single transaction completed by the company to this time.
- Skyline also owns 33% of the Dunedin Casino which was opened in 1999.



CHRISTCHURCH CASINO

NZ\$ 61.1 MILLION

Net Annual Sales*



DUNEDIN CASINO

NZ\$ 16.3 MILLION

Net Annual Sales*

“Trading and patronage has not yet returned to pre-earthquake levels however bottom-line results remain consistent with the past two years. The volatility from high-end play is also an influencing factor on the trading results. The Casino will continue to benefit from the rebuild with developments taking shape along Victoria Street and in the City Centre. The rebuild at the Christchurch Town Hall is welcome news. Our strategy remains unchanged in positioning the Casino as Christchurch’s premier entertainment destination.”

Skyline Enterprises 2015 Annual Report

SKYLINE ENTERPRISES: INTERNATIONAL OPERATIONS

- Skyline owns and operates Sentosa Gondola and Luge Track (Singapore), Quebec (Canada) and Calgary (Canada) and soon, Tongyeong City (Korea).
- Similar to the New Zealand operations these operations take customers up a gondola up to a sight seeing platform and provide the option to ride small single-man carts around a race track before descending down the gondola.
- Skyline have developed an alternative model to the established 'build, own and operate' approach for new luge sites. Coined the new 'Luge Licensing Model', Skyline will provide consulting services for the planning, consenting, construction and supply for new luge sites and then charge an on-going license fee for the use of the Skyline Luge systems. The Luge License will be used in countries assessed to be difficult or risky for Skyline to develop independently. It will reduce the capital requirements and should speed up projects and the number of projects that can be undertaken.
- Skyline's international growth is relatively slow in recent years, with a growth of 35.6% in revenue in the past five years, where 80% of that growth provided by 2015, mostly contributed by growth at Sentosa.



SKYLINE ENTERPRISES: PROPERTY INVESTMENT

- Skyline and its subsidiaries own a range of commercial property in Queenstown.
- Today the assets of the Commercial Property segment of the business total over NZ\$ 112 Million (31% of Total Assets).



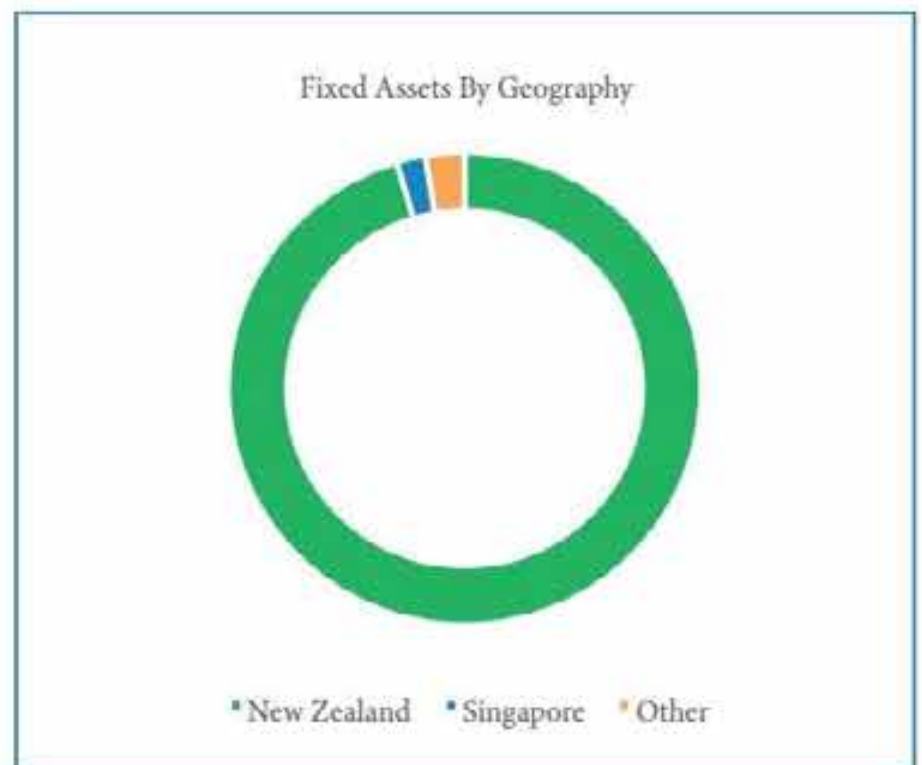
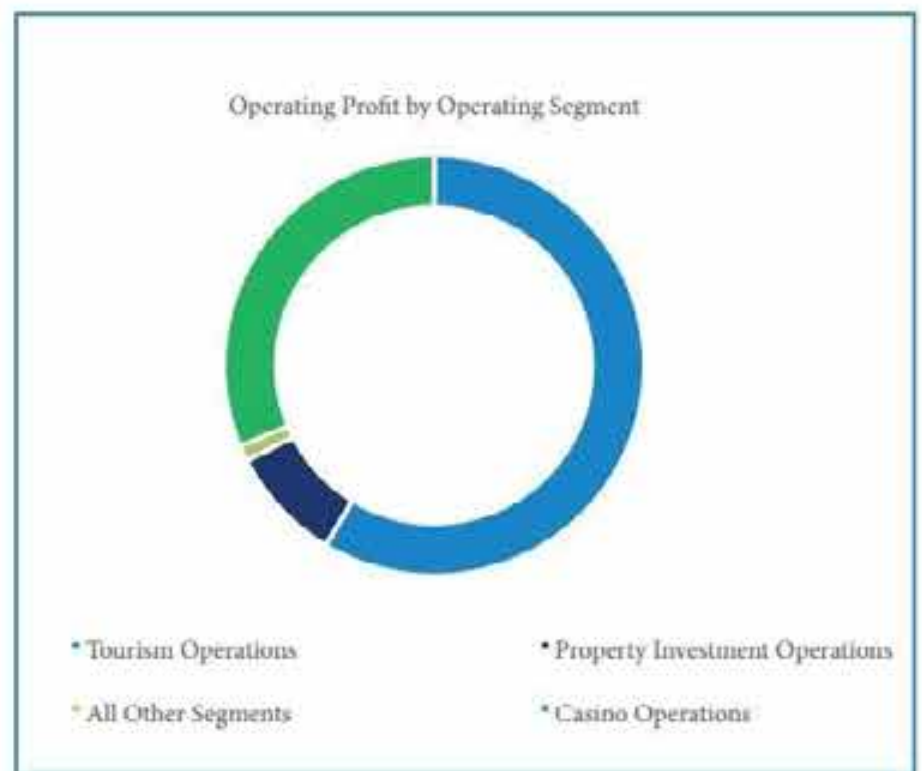
NZ\$ 112 MILLION

Assets

NZ\$ 6 MILLION

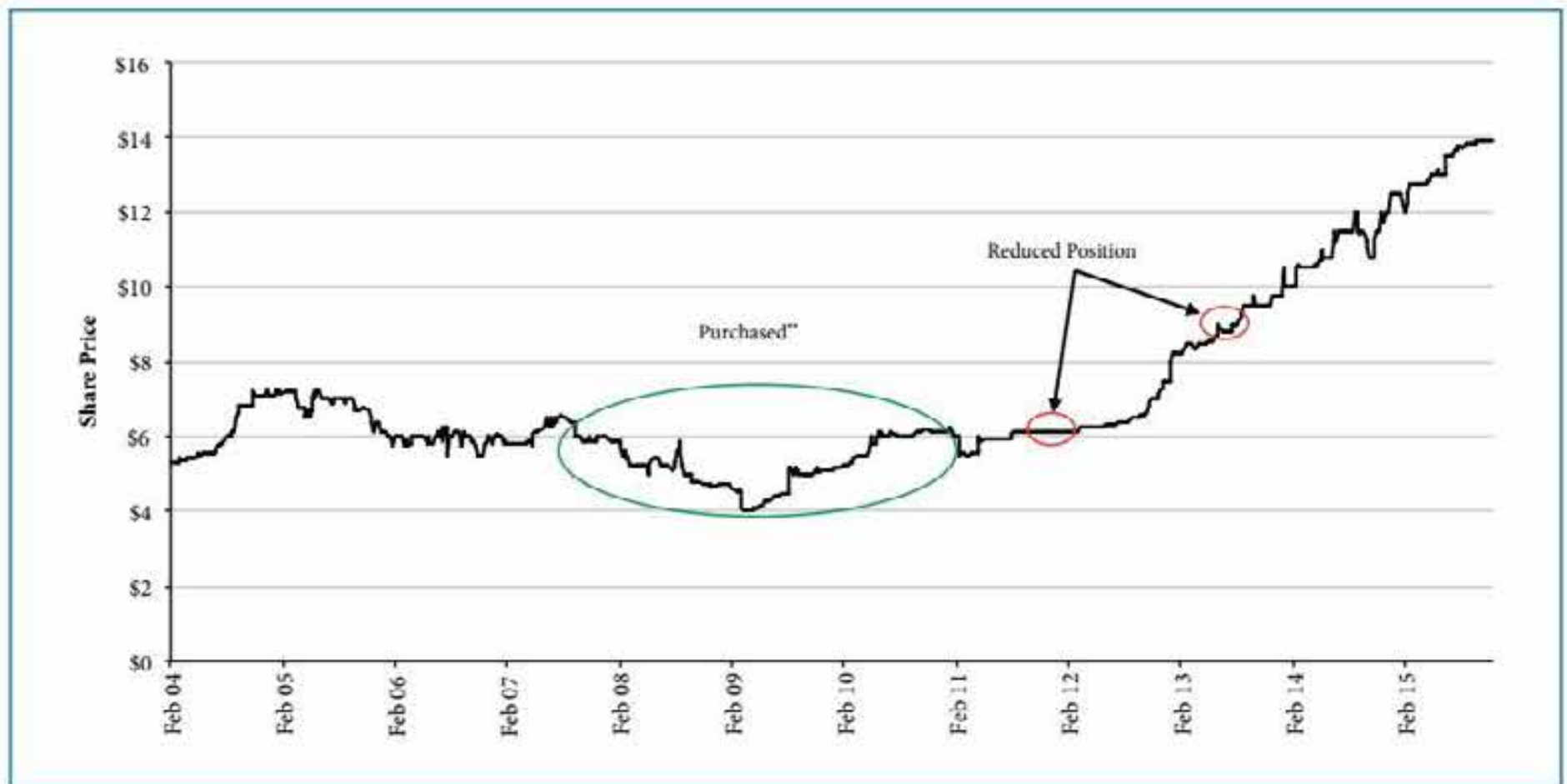
Annual Rents*

SKYLINE ENTERPRISES: SEGMENT REVENUES & OPERATING PROFIT



SKYLINE ENTERPRISES: SHARE PRICE MOVEMENT IN RECENT YEARS

- The shares have rebounded strongly from the bottom of GFC in 2009 of NZ\$ 4.10 and continued to make new highs.
- Current share price* = NZ\$ 13.90 (Market Capitalisation = NZ\$ 473.3M)
- Elevation Capital Value Fund Average Cost = NZ\$ 5.54**



** AS AT 1 DECEMBER 2015

** ECVF & ECMSF HISTORICAL PURCHASES

SKYLINE ENTERPRISES: CAPITAL STRUCTURE & OWNERSHIP

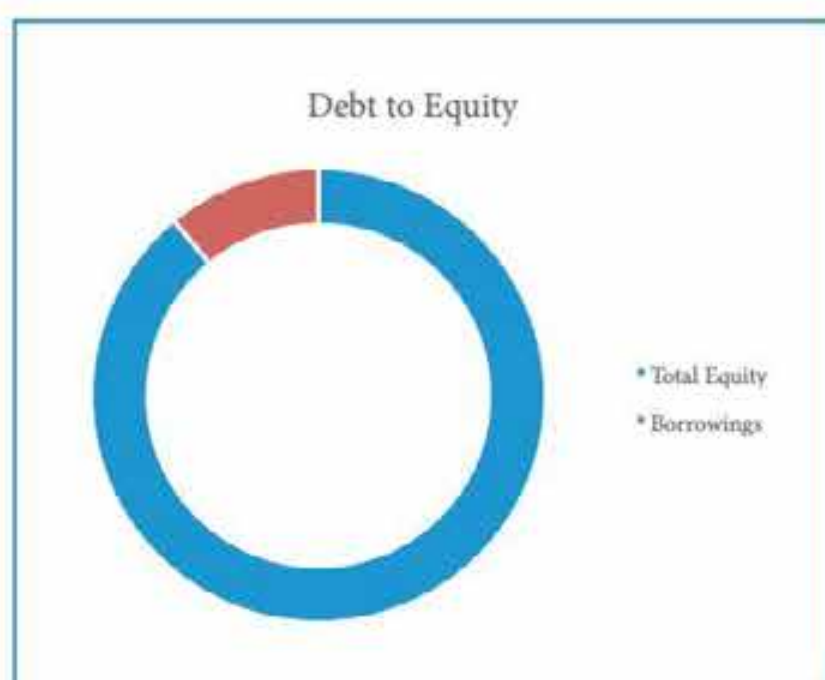
Skyline's Capital Structure is heavily weighted toward Equity with a 12% Debt to Equity Ratio, one of the key opportunities for an increase in ROE would be for Skyline to return excess capital and drawdown some additional debt which would likely be at an attractive interest rate given the current interest rate environment (with OCR being 2.50% as at 10 December 2015).

EQUITY

- # of Shares issued = 34,047,779
- Skyline has a large majority of ownership held by less than 35 Shareholders. 48.62% of the company is owned by 15 Shareholders / Entities and 63.54% of the company is held by 33 Shareholders / Entities*.

DEBT

- The Company has debt totalling NZ\$ 34.9M.



Top 10 Shareholders*	%*
Philip and John Hensman	8.24%
Sharon and Barry Thomas	8.24%
Lois Gill and McCulloch Trustees Limited	4.39%
Hensman-MacDonald Limited – Phillip and John Hensman	3.44%
Mark and Jacqueline Quickfall & McCulloch Trustees Limited	3.11%
Elizabeth Luke, Grant Hensman & David Luke	3.02%
Marion Meehan & Robert Cooper	2.69%
Grant Hensman	2.38%
Lynda and Philip Hensman	2.34%
New Zealand Guardian Trust Limited	1.98%
Total:	39.83%



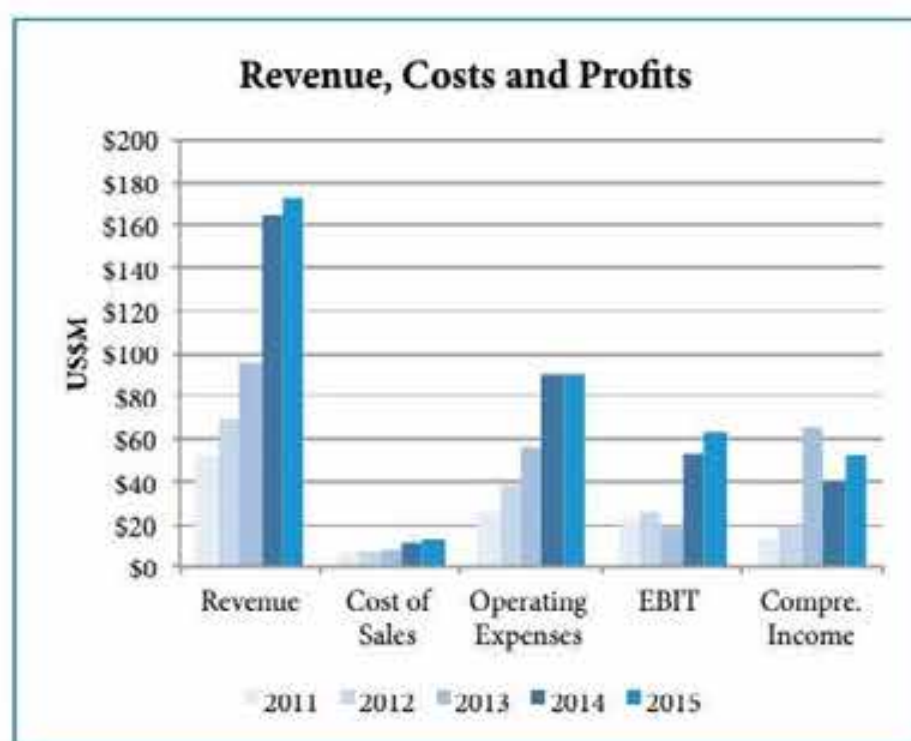
SKYLINE ENTERPRISES: STRONG FINANCIAL POSITION

BALANCE SHEET

- The Management have been able to create significant value for shareholders in recent years, reflecting on the increase of the Book Value of Equity.
- Skyline has a strong balance sheet with \$282,853,548 of Equity out of Assets of \$362,876,759 and Borrowings of \$34,900,000. Skyline has a Net Debt to EBITDA ratio of 0.25x which is one of the lowest amongst comparable companies.

INCOME STATEMENT

- The Management is able to translate growth in revenue to growth in profits. Comprehensive income has grown from NZ\$ 12.1M in 2011 to NZ\$ 52.2M in 2015 this includes operating profits, investment property revaluation and non-controlling subsidiary income. Gross Profit from sales over this same period – this is core operating businesses (excludes investment property rents, revaluations and equity accounted subsidiary profit) - has increased from NZ\$ 46.8M to NZ\$ 149.8M.



* AS AT 26 SEPTEMBER 2015

DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015

SKYLINE ENTERPRISES: CAPITAL RETURNS VIA DIVIDENDS

DIVIDENDS

- The Company has a conservative and stable dividend payment policy. For FY2015, the Management has recommended to pay out NZ\$ 14.3M as dividends out of NZ\$ 52.2M Comprehensive Income (Payout ratio of 27.4%).
- There exists significant scope to increase payout ratio
- Current Gross Dividend Yield = 3.02%*



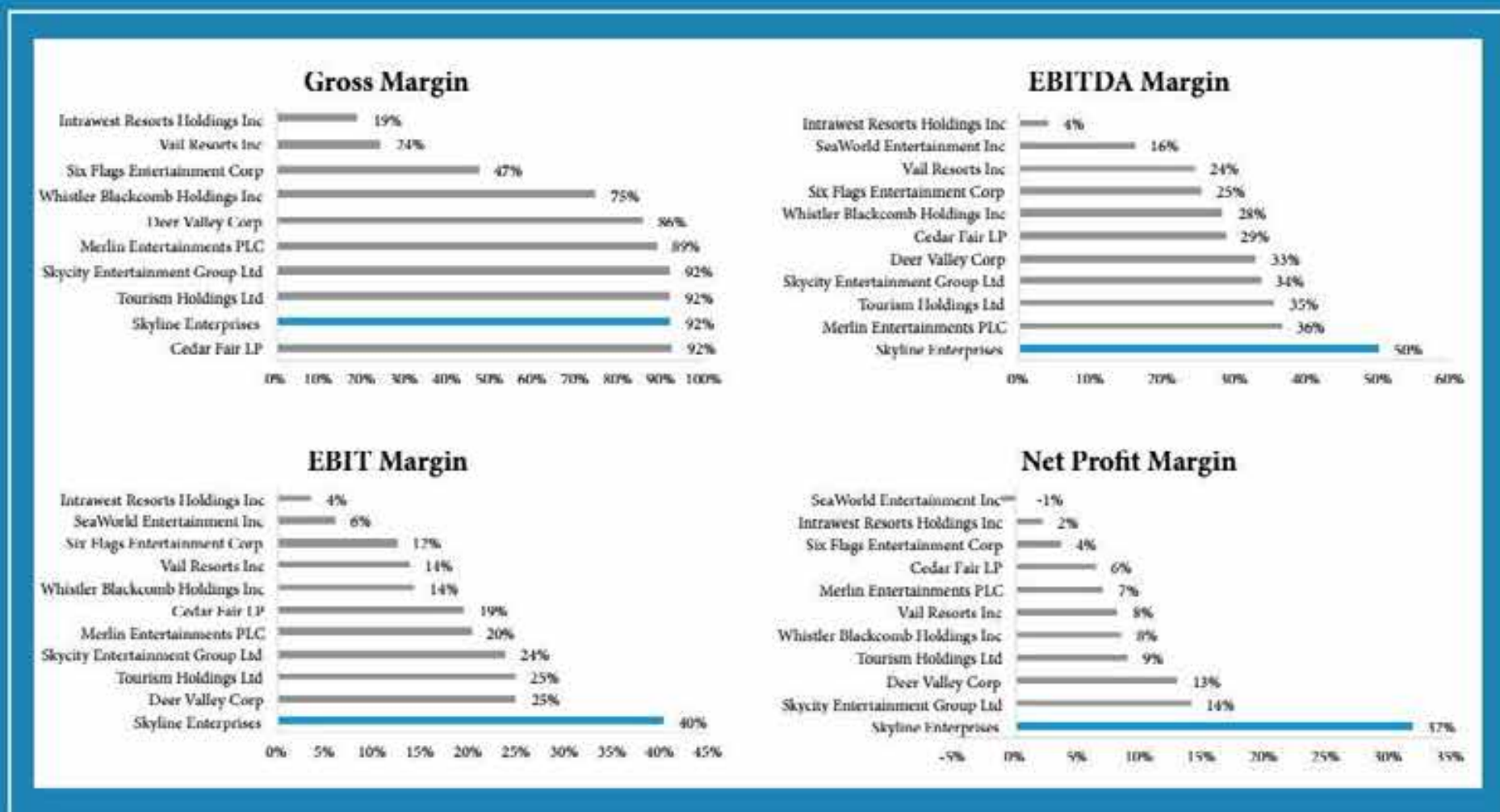
“With future demand to fund a number of planned new investments and reinvestments in our established businesses Directors have again adopted a prudent approach in terms of the dividend payment.”

Skyline 2015 Annual Report

* BASED ON SHARE PRICE OF NZ\$ 13.90 AS AT 1 DECEMBER 2015

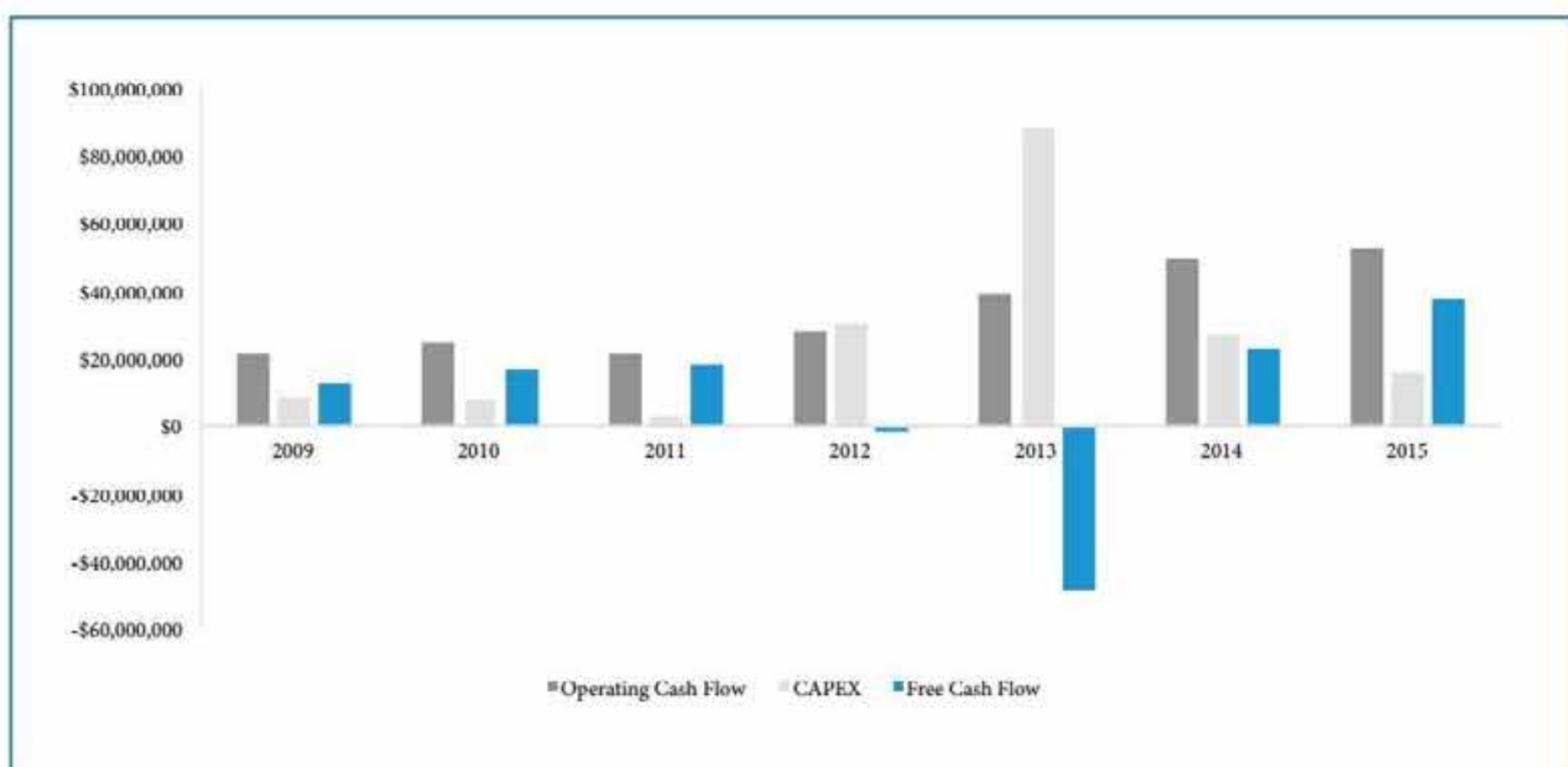
SKYLINE ENTERPRISES: HIGH MARGIN BUSINESS

- Skyline has one of the highest margins among its peers on a relative and absolute basis – this is largely due to the lack of sensitivity to the prices Skyline is able to charge in a largely monopolistic business in its main segments.



SKYLINE ENTERPRISES: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- Skyline is a Free Cash Flow generative business and the only year that has had a negative free cash flow was 2013 which was due to a large acquisition.
- Operating Cash flow has been steadily increasing from 2007 and there has been a steady amount of Capex in the last 3 years due to premises upgrades and Capex on overseas gondolas and luges with one large project yet to provide the free cash flow expected due to the site not launching until early 2016.
- The Capex to improve existing operations has been spent well in the past with large increase in traffic and visitor numbers when Capex has been deployed historically and the Capex spent on new developments both in NZ and overseas are likely to provide accretive returns based on the successful history of development evidenced by Skyline over the last 10-15 years.



SKYLINE ENTERPRISES: COMPARABLE COMPANIES – MARGINS AND RETURNS

- Skyline ranks the highest vs. all comparable companies on all relative profitability measures. Notably Operating Margin of Skyline (40%) vs. Median (17%) and EBIT Margin of Skyline (40%) vs. Median (19%).

Company Name	Gross Margin (FY0)	Operating Margin (FY0)	EBITDA Margin (FY0)	EBIT Margin (FY0)	Net Profit Margin (FY0)
Deer Valley Corp	86%	23%	33%	25%	13%
Tourism Holdings Ltd	92%	21%	35%	25%	9%
Skycity Entertainment Group Ltd	92%	23%	34%	24%	14%
Merlin Entertainments PLC	89%	17%	36%	20%	7%
Cedar Fair LP	92%	19%	29%	19%	6%
Whistler Blackcomb Holdings Inc	75%	14%	28%	14%	8%
Vail Resorts Inc.	24%	15%	24%	14%	8%
Six Flags Entertainment Corp	47%	12%	25%	12%	4%
SeaWorld Entertainment Inc.	n/a	6%	16%	6%	-1%
Skyline Enterprises	92%	40%	50%	40%	32%
Intrawest Resorts Holdings Inc	19%	4%	4%	4%	2%
Median	87%	17%	29%	19%	8%
Mean	71%	18%	29%	18%	9%

SKYLINE ENTERPRISES: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Skyline has a 0.25x Net Debt to EBITDA ratio which is the lowest out of the entire peer pool and ~10x lower than the Median and Mean.

Company Name	Net Debt/EBITDA (TTM)	Net Debt/Equity (TTM)	Net Debt/EBIT (FY1)
Deer Valley Corp	1.06	0.41	1.99
Tourism Holdings Ltd	2.29	0.91	2.31
Skycity Entertainment Group Ltd	2.10	0.79	2.90
Merlin Entertainments PLC	2.37	0.88	3.04
Cedar Fair LP	3.15	5.16	3.90
Whistler Blackcomb Holdings Inc.	2.39	0.61	4.51
Vail Resorts Inc.	3.75	15.51	4.54
Six Flags Entertainment Corp	3.41	2.88	8.86
SeaWorld Entertainment Inc.	5.52	1.79	12.87
Skyline Enterprises	0.25	0.07	
Intrawest Resorts Holdings Inc	n/a	-0.26	n/a
Median	2.38	0.88	3.90
Mean	2.63	2.61	4.99

SKYLINE ENTERPRISES: COMPARABLE COMPANIES – VALUATION

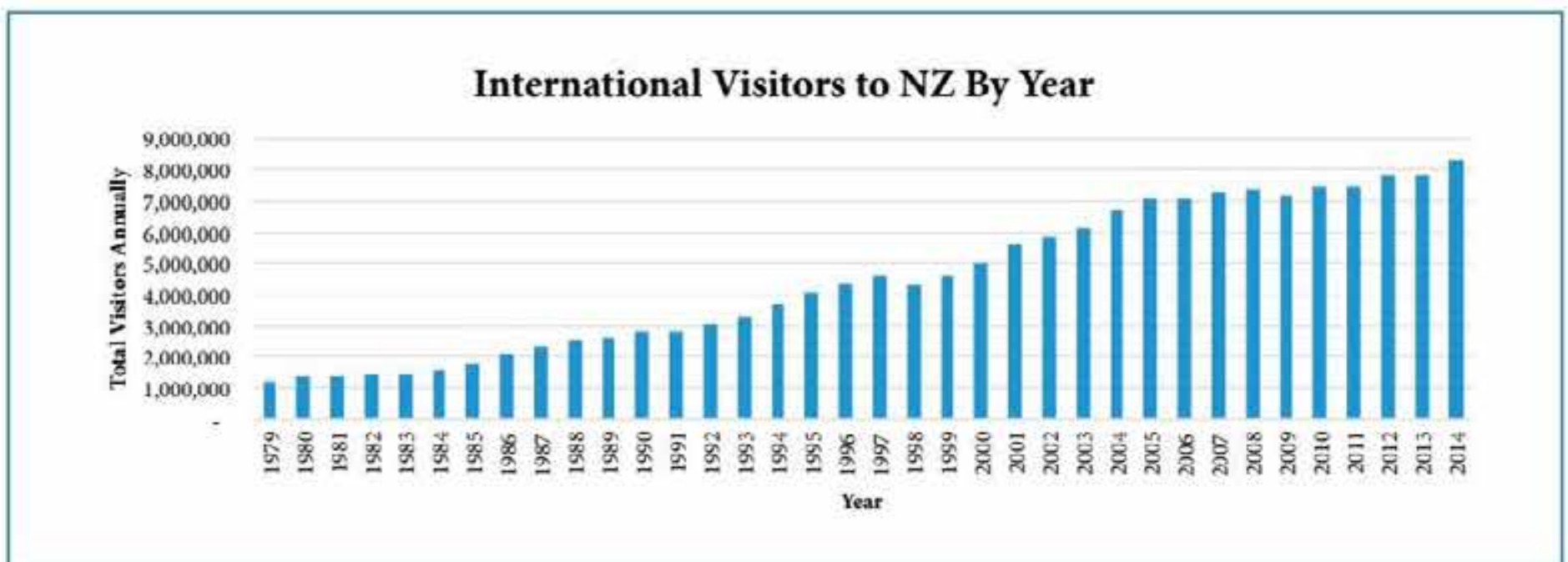
- Skyline is on the lower end of market capitalisation for all the comparable companies. Skyline appears cheap on all relative multiples such as P/E – Skyline (9.2x) vs. Median (26.7x), EV/EBITDA (6.11x) vs. Median (9.54x) and EV/EBIT (7.59x) vs. Median (16.52x).
- Even using a 20% earnings decline (unlikely) Skyline is cheap vs. its peers – trading at 11.5x P/E

Company Name	Market Cap (NZD Million)	Price/EBIT (FY1)	P/E (TTM)	P/E (FY1)	EV/EBITDA (TTM)	EV/EBITDA (NTM)	EV/EBIT (TTM)	P/CF (TTM)	P/B (TTM)	Dividend Yield (FY-1)
Intrawest Resorts Holdings Inc.	\$605	8.95	n/a	118.96	8.15	7.68	26.09	5.51	1.47	0%
Vail Resorts Inc.	\$6,298	16.08	37.75	31.46	13.49	11.28	26.04	13.56	5.49	2%
SeaWorld Entertainment Inc.	\$2,681	10.32	73.81	25.44	9.01	8.75	22.76	6.61	3.56	3%
Whistler Blackcomb Holdings Inc.	\$860	14.66	37.07	34.32	12.03	8.96	21.92	10.77	2.08	5%
Six Flags Entertainment Corp	\$7,212	13.61	44.26	34.19	14.00	12.14	21.21	14.75	29.34	4%
Merlin Entertainments PLC	\$9,465	13.41	26.28	22.98	12.63	11.70	16.52	15.14	4.09	2%
Cedar Fair LP	\$4,758	10.16	27.11	19.72	10.52	9.68	16.17	9.03	n/a	5%
Skycity Entertainment Group Ltd	\$2,392	9.93	18.34	16.07	9.54	9.16	13.94	8.63	2.93	5%
Tourism Holdings Ltd	\$232	6.70	13.03	10.96	4.72	4.50	9.92	7.27	1.46	7%
Skyline Enterprises	\$477		9.20		6.11		7.59	9.05	1.68	3%
Deer Valley Corp	\$16	n/a	8.56	n/a	3.71	n/a	4.07	3.72	0.98	n/a
Median	\$2,392	10.32	26.70	25.44	9.54	9.16	16.52	9.03	2.50	0.03
Mean	\$3,183	11.53	29.54	34.90	9.45	9.32	16.93	9.46	5.31	0.03

DATA SOURCE: THOMSON REUTERS EIKON AS AT 7 NOVEMBER 2015
CF = CASH FLOW, BV = BOOK VALUE

SKYLINE ENTERPRISES: NZ TOURISM INDUSTRY

- Tourism is one of New Zealand's biggest export industries, contributing \$11.8 billion or 17.4% of New Zealand's foreign exchange earnings. New Zealand's Domestic tourism expenditure is worth \$18.1 billion. Tourism directly contributes NZ\$ 10.6 billion or 4.9% to New Zealand's GDP.
- New Zealand remains a very popular destination with international visitors who are leaving with an overall satisfaction of 9.1/10. This makes visitors highly likely to recommend New Zealand as a place to visit. Recommendations of Friends and Family is one of the top drivers influencing visitors to come to New Zealand. New Zealand gets a "net-promoter score" of 75%.
- Australia is New Zealand's largest top visitor market with 1.24 Million Annual Visitors of whom 478,000 are here to holiday, New Zealand's next biggest markets are China (0.24 Million Annual Visitors), USA (0.21 Million Annual Visitors), and UK (0.196 Million Annual Visitors).
- International Visitors to New Zealand are increasing with an Compounding Annual Growth Rate ("CAGR") of 5.40 % since 1974, 2014 saw 8.3 million International Visitors arrive in New Zealand.



SKYLINE ENTERPRISES: GLOBAL TOURISM INDUSTRY

GLOBAL TOURISM – FROM NZ’S PERSPECTIVE

- Globally, tourism is undergoing a once-in-a-generation structural change which will have a significant impact on its future scale and composition.

THE GROWING MIDDLE CLASS

- A strong positive change is the growth being driven by the growing middle class, which is creating new outbound markets, predominantly in Asia. According to Global Demographics, the middle class will grow by 145 million households between now and 2025. A significant volume of these households reside around the Pacific Rim and could be reached by long-haul aircraft to New Zealand.

THREE TOUGH CHALLENGES

- This positive force is countered by three tough challenges:
 1. The emergence of new tourism destinations
 2. The forecast for slowing growth rates for tourism overall, particularly for advanced economies like NZ
 3. Strong and coordinated competition for the tourism dollar from both emerging and advanced economies



SKYLINE ENTERPRISES: RECENT INDUSTRY M&A TRANSACTIONS

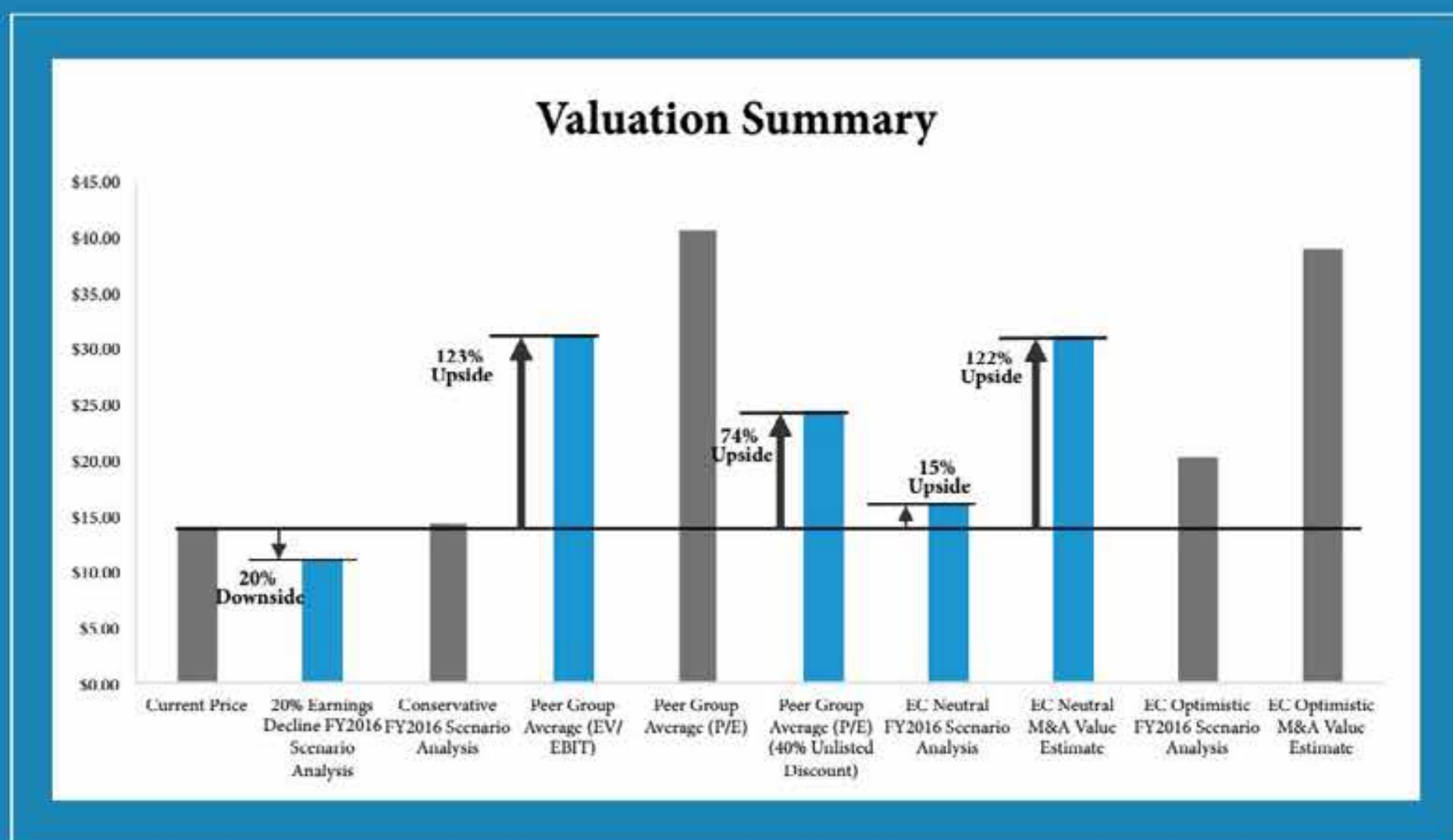
- Skyline trades significantly below multiples recently paid for companies operating in similar segments.

Date Effective	Acquirer Name	Target Name	Target Industry	Deal Size (M USD)	EBITDA Multiple	EBIT Multiple	Target Nation
9-Jun-09	Geating Blvd	MGM Mirage Inc.	Casinos & Gaming	100	9.13	16.026	United States
17-Mar-10	Hotel Acquisition Co LLC	Interstate Hotels & Resorts Inc.	Hotels and Lodging	289	7.41	13.14	United States
8-Jun-10	Isle of Capri Casinos Inc.	Rainbow Hotel Casino	Hotels and Lodging	80	7.28	11.037	United States
8-Jul-10	Ontario Teachers' Pension Plan	Camelot Group PLC	Casinos & Gaming	576	4.48	7.082	United Kingdom
1-Dec-10	Wyndham Worldwide Corp	James Villa Holidays Ltd	Hotels and Lodging	77	14.28	15.089	United Kingdom
15-Dec-10	Chesapeake Lodging Trust	Le Meridien San Francisco, San Francisco, California	Hotels and Lodging	143	7.67	10.063	United States
8-Feb-11	Westmont Hospitality Group Inc.	Hilton Barcelona	Hotels and Lodging	55	9.45	11.885	Spain
19-Apr-11	Ameristar Casinos Inc.	Ameristar Casinos Inc.	Casinos & Gaming	458	8.08	12.562	United States
14-Jul-11	Chatham Lodging Trust	Innkeepers USA Trust-Hotels(5)	Hotels and Lodging	195	20.14	51.916	United States
29-Jul-11	Delicious Food Holdings(Singapore)Pte Ltd	Oaks Hotels & Resorts Ltd	Hotels and Lodging	158	7.47	12.613	Australia
21-Nov-11	Shareholders	Marriott International Inc. Timeshare Operations & Development Bus	Hotels and Lodging	555	3.10	3.857	United States
18-Feb-12	Wynn Resorts Ltd	Wynn Resorts Ltd	Casinos & Gaming	1,936	7.68	10.367	United States
24-Feb-12	Crown Ltd	Echo Entertainment Group Ltd	Casinos & Gaming	140	6.35	7.735	Australia
4-May-12	K-9 Acquisition Inc.	Great Wolf Resorts Inc.	Hotels and Lodging	724	9.74	33.182	United States
29-May-12	Ennismore Capital	The Hoxton Hotel	Hotels and Lodging	109	13.83	15.467	United Kingdom
31-May-12	RLJ Lodging Trust	Courtyard New York Manhattan Upper East Side	Hotels and Lodging	82	10.84	13.44	United States
20-Nov-12	Boyd Gaming Corp	Peninsula Gaming LLC	Hotels and Lodging	1,400	18.15	25.597	United States
11-Dec-12	Carey Watermark Investors Inc.	Courtyard Marriott San Diego Mission Valley/Hotel Circle	Hotels and Lodging	90	15.57	20.607	United States
11-Jul-13	Carey Watermark Investors Inc.	Fairmont Sonoma Mission Inn & Spa	Hotels and Lodging	73	21.71	39.657	United States
1-Nov-13	Real Journeys Queenstown	Cardrona Ski Field		24.14	8.50		New Zealand
4-Dec-13	KSL Capital Partners LLC	Whistler Blackcomb Holdings Inc.	Hotels and Lodging	117	8.17	15.009	Canada
31-Jan-14	International Game Technology	International Game Technology	Casinos & Gaming	200	7.16	10.063	United States
7-Jul-14	Holloway Lodging Corp	Royal Host Inc.	Hotels and Lodging	143	8.94	16.484	Canada
19-Sep-14	Eldorado Resorts LLC	MTR Gaming Group Inc.	Casinos & Gaming	504	5.10	7.36	United States
25-Sep-14	Homair Investissement SAS	Homair Vacances SA	Hotels and Lodging	211	8.86	36.019	France
11-Mar-15	Investor Group	Club Mediterranee SA	Hotels and Lodging	1,037	9.62	35.057	France
29-Jun-15	Great Canadian Gaming Corp	Great Canadian Gaming Corp	Casinos & Gaming	63	9.62	12.675	Canada
1-Sep-15	Skydive the Beach Group	Skydive Queenstown Limited Group		11		5	Australia
				Mean	353.08	9.94	17.85
				Median	143.00	8.86	13.29
				Skyline	319.3	1.92	7.42

SKYLINE ENTERPRISES: ELEVATION CAPITAL'S VALUATION RANGE

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:
**NZ\$ 11.19 -
NZ\$ 31.10 PER
PER SHARE**

DOWNSIDE/UPSIDE
POTENTIAL
RANGE:
**-20% -
+123%**



NOTE: CURRENT SHARE PRICE = NZ\$ 13.90 (AS AT 1 DECEMBER 2015)

**20% EARNINGS DECLINE FY2016 SCENARIO ANALYSIS IS BASED ON A 9.2X P/E RATIO AND A 20% DECLINE IN COMPREHENSIVE EARNINGS

***CONSERVATIVE FY2016 SCENARIO ANALYSIS IS BASED ON A 10% INCREASE IN FY2015 EARNINGS, A 9.2X P/E AND DISCOUNTED AT 8% TO PRESENT VALUE

SKYLINE ENTERPRISES: KEY OPPORTUNITIES

(1)

LOWER (CHEAPER) NZD

- Skyline currently has the majority of assets and income in New Zealand. The majority of the income is from tourists and the spend per tourist and tourist numbers will increase if the NZD becomes cheaper (devalued) making New Zealand a lower cost place to visit and spend. A cheaper NZD will also increase earnings in NZD from overseas operations.

CHEAP IN ABSOLUTE AND RELATIVE TERMS, NO GROWTH PRICED IN

- Skyline is very cheap versus its peers, especially considering its enviable margins, long international growth runway and largely monopolistic business model which has strong pricing power. Skyline's low trading multiples is largely a product of it trading on an unlisted exchange and a listing on NZX or ASX would increase coverage, volume traded and liquidity and would likely push the multiples it trades for higher.

ACQUISITION AND EXPANSION

- Skyline have a history of successful expansion, reinvestment and acquisition this is evidenced by ROE, Revenue Growth, Asset Growth, Equity Growth.

CAPACITY TO UTILISE DEBT TO INCREASE ROE, FURTHER INVEST AND ENGAGE IN SOME BUY BACKS

- With Skyline's conservative debt positioning and diversification of geography and operating segment, they could increase their debt levels without increasing the risk profile proportionally. Using the capital for buybacks, expansion or re-investment into current operations could substantially increase earnings and ROE.

SKYLINE ENTERPRISES: KEY OPPORTUNITIES

(2)

CONCENTRATION / FAMILY CONTROL

- Another factor potentially contributing to Skyline's cheapness could be the 'free-float'/liquidity/trading volume. This is largely due to the concentration of ownership. This concentration of ownership could also be seen as a problem for effecting change in terms of underperforming units / catalyst to close the valuation gap with something like a main board listing.
- The concentration of ownership, in our view, actually creates a benefit. Too often businesses that are publicly traded and are in the spotlight have a management incentive to make targets and report earnings in line with growth forecasts – too often this is to the detriment of the long-term potential of the business and is known as “hollowing out a franchise business”. Skyline's concentration of long-term focused shareholders can, with their 'super vote', defend against short term earning based incentives and make truly long term accretive decisions that involve up-front duress for long term benefits.

FURTHER OVERSEAS PROJECTS

- Skyline states in their FY2015 Annual Report - “To further promote luge development we intend to increase our capability by adding a second staff member to our international luge team. Currently we have a number of prospective luge developments under discussion with a variety of parties in multiple locations...” This seems favorable to an increased international expansion program which has been a favorable model in the past.



SKYLINE ENTERPRISES: KEY OPPORTUNITIES

(3)

FURTHER ACQUISITIONS AND/OR DIVESTMENT OR PROFITABILITY OF MILFORD FLIGHTS

- Skyline has had a successful acquisition and development history in the past and the global nature and un-saturation of their core-business activities leaves a long runway for growth for Skyline .

LICENCING MODEL FOR NEW VENTURES LESS HUMAN AND \$\$ CAPITAL INTENSIVE

- The licencing model, announced in the FY2015 Annual Report, is another way Skyline can grow, into countries they aren't comfortable using the "own-develop and operate" model in. This allows a non-capital intensive method of growth for the company with few limits on its breadth.

FAVOURABLE ENVIRONMENT FOR DOMESTIC AND GLOBAL TOURISM

- Skyline is operating in a growing segment both domestically and internationally with tourism spending globally increasing. Global tourism is largely driven by rising middle class incomes and the decreasing cost of travel, both trends are set to continue in a positive direction for global tourism the amount of tourist travel undertaken and amount spent is set to grow increasingly over the next three decades.

HISTORY OF INNOVATION AND DEVELOPMENT TO MAXIMISE GROWTH IN NUMBERS AND SPEND PER CUSTOMER

- Skyline has a history of maximising the long-term benefits from their operations. This is through regular reinvestment in the facilities and addition of ancillary businesses on existing footprints examples include the stratosphere restaurants, mountain biking, larger ticketing and reception areas – these investments are designed to enhance the user experience to encourage the number of customers and customers.



SKYLINE ENTERPRISES: KEY RISKS

NEW ZEALAND TOURISM IN GENERAL

- As Skylines main market the New Zealand appeal as a tourist destination is a very important part of the business, there is risk around other destinations opening up and NZ becoming less popular.

NEW ZEALAND CURRENCY

- The NZD can pose a risk to Skyline as a significant increase in the NZD can make New Zealand a relatively more expensive place to visit and by virtue decrease number of tourists and tourism spend.

OVERSEAS PROJECTS

- In overseas expansion and development come such risks as corruption, currency, un-known political and legislative environments.

SKYLINE OR RELATED ENTITY HEALTH & SAFETY ISSUE

- Skyline remains at risk to a major Health and Safety disaster at one of their operations and a potential law suit. This is likely mitigated but the diversity of brands, strong H&S program and other operators ability to recover from similar issues i.e. Shotover jet and over the top helicopters.

OTHER RISKS - 9/11, GFC & NATURAL DISASTER

- In the tourism industry there are unforeseen risks that have a significant risk to tourism globally – these are natural disasters and acts of terrorism, things like 9/11 and the Christchurch Earthquake have had a significant impact on tourism numbers.



SKYLINE ENTERPRISES: ELEVATION CAPITAL

CONCLUSION

- **LIMITED COMPETITION** – Skyline Enterprises consists of multiple diverse operating segments with their core segment prevailing in tourism operations. This segment benefits from limited competition enabling Skyline to successfully create a largely monopolistic position. This has resulted in elevated profit margins - both absolute and when compared to its global peers.
- **HIGH MARGINS** have been the backbone for growth in revenue and underlying profit while competent management has allowed for the effective allocation of capital. We observe sound management and development of existing businesses occurring parallel to the development of new businesses (through acquisitions or otherwise) – the majority of which have presented accretive and synergistic qualities with a cross selling potential.
- **INTERNATIONAL EXPANSION** – The long runway ahead of the company is appealing, representing considerable opportunity for international expansion while associated risk can be managed through the adoption of a licensing model. Such an approach has appeal as it requires little capital and is ideal for markets where the company is not comfortable using the ‘develop, own and operate’ model.
- **GROWING MARKET** – Skyline is operating in an expanding segment (both domestically and internationally) with tourism spending increasing globally. Rising middle class incomes and decreasing costs of travel is expected to substantially increase both the quantity of travel undertaken, and total amount spent, over the coming three decades.
- **RISKS ASSOCIATED** with Skyline are largely mitigated through multi-layered diversification. Operating segments are insulated through multiple business lines and various brands, while geographic diversification mitigates a large amount of currency and major event risk (e.g. health and safety). The foremost risk for Skyline remains a force majeure or catastrophic financial event - for example Hurricane Katrina, Terrorism or the more the more recent Global Financial Crises.
- **UNDERVALUED** – Skyline remains very cheap on every comparison metric available most notably profit margins, and trading multiples. An undeniable downside of Skyline Enterprises is the obvious lack of liquidity caused by a high concentration of large shareholders and its listing on unlisted.co.nz.



ELEVATION CAPITAL MANAGEMENT LIMITED

VIACOM INC [VIA:US/VIAB:US]

Research Presentation released in February 2015



The image shows the classic Paramount Pictures logo. At the top, a circle of 36 five-pointed stars is arranged in an arc. Below the stars, the word "Paramount" is written in a stylized, cursive script. The background of the entire logo is a detailed, textured mountain peak, likely Mount Everest, with snow-capped ridges and dark, rocky slopes. The sky behind the mountain is a clear, light blue.

Paramount

A VIACOM COMPANY

VIACOM INC: INTRODUCTION

Viacom Inc is an American global mass media company which owns some of the most popular TV channels in the world, as well as Paramount Pictures, a producer and distributor of films. It is the sixth largest broadcasting and cable company in the world (based on revenue).

It is home to some of the world's premier entertainment brands that connect with audiences through compelling content across television, motion picture, online and mobile platforms in over 160 countries and territories.

With media networks reaching approximately 700 million global subscribers, Viacom's leading brands include: MTV, VH1, CMT, Logo, BET, CENTRIC, Nickelodeon, Nick Jr., TeenNick, Nicktoons, Nick at Nite, COMEDY CENTRAL, TV Land, SPIKE, Tr3s, Paramount Channel and VIVA.

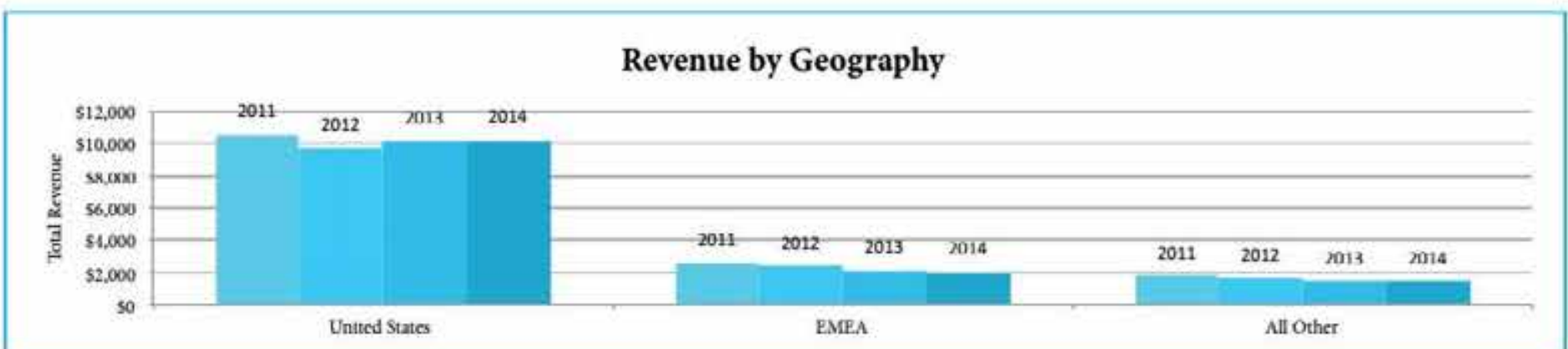
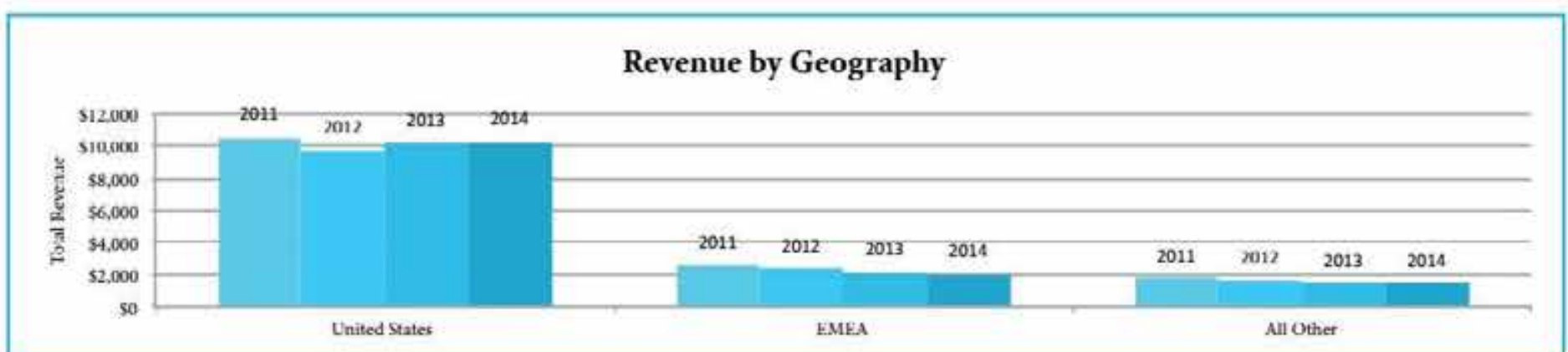
Paramount Pictures, America's oldest film studio and creator of many of the most beloved motion pictures, continues today as a major global producer and distributor of filmed entertainment.



VIACOM INC: THREE GEOGRAPHICAL SEGMENTS – US MARKET STILL DOMINATES

INTERNATIONAL EXPANSION STRUGGLING

- Viacom’s principal international businesses are in Europe. The United Kingdom and Germany together accounted for approximately 45% of total revenues in the Europe, Middle East and Africa (“EMEA”) region in 2014
- Viacom continued to expand its international reach in recent years, with global initiatives including Comedy Central Latin America and Viacom 18 Media, a joint venture with Indian Network 18
- However, the international segment continues to struggle and has declined in revenue terms versus the US market since 2011 (25.6% of revenue in 2014 vs 29.3% revenue in 2011)



SOURCE: VIACOM 2012, 2013, 2014 ANNUAL REPORTS

VIACOM INC: HISTORY

1971 Viacom completes the spin-off from Columbia Broadcasting System (CBS)



1985 Viacom acquires ~66% of MTV Networks



1986 Viacom acquires the remaining interest of MTV Networks for US\$ 185,000

1987 National Amusements, Inc acquires 83% of Viacom



1994 Viacom completes US\$ 9.9B merger with Paramount Communications Inc

1999 Viacom (VIA, VIAB) starts trading on NYSE

2000 Viacom completes US\$ 39.8B merger with CBS Corporation

2001 Viacom acquires BET Holding II, Inc for US\$ 3B

2002 MTV acquires The College Television Network

2003 Viacom acquires the remaining 50% in COMEDY CENTRAL for US\$ 1.2B

2005 Viacom separates into two companies: Viacom Inc and CBS Corporation



2006 Paramount Pictures acquires DreamWorks LLC

2008 Viacom and Paramount Pictures form EPIX, a JV with MGM and Lionsgate



2012 Paramount celebrates its 100th anniversary



VIACOM INC: HOME TO SOME OF THE WORLD'S PREMIER ENTERTAINMENT BRANDS



Launched in 1989, Comedy Central is an American cable and satellite TV channel that carries only comedy programming. It has localised channels in over 20 countries and approximately 97.8M* households in the US receive Comedy Central.



MTV was launched in 1981, originally with the purpose of playing music videos. More recently the program has targeted adolescents and young teenagers. Approximately 97.7M* households in the US receive MTV.



Originally called Pinwheel, Nickelodeon's programming is geared towards kids in the 8-16 age bracket, while its morning programming is aimed toward younger children from 2-8. It reaches approximately 98.8M* households in the US.



Paramount Pictures is a global producer of filmed entertainment. It is consistently ranked as one of the big six film distributors of Hollywood. Its most successful film series include Transformers, Mission Impossible, Indiana Jones, The Godfather and Star Trek.



VH1 was launched in 1985 with the intention to capture the success of MTV but targeting an older demographic. It has become increasingly popular for its focus on producing reality TV that relates to music. The channel reaches approximately 96.8M* households in the US.



BET (Black Entertainment Network) is the most prominent TV network targeting African American audiences, reaching approximately 90M* households in the US.

* AS AT AUGUST 2013

VIACOM INC: HOME TO SOME OF THE WORLD'S PREMIER ENTERTAINMENT BRANDS



Centric is an American general interest cable television channel geared towards African-American women. A Black Entertainment Television (BET) channel, it was formerly known as BET on Jazz, BET Jazz, and BET J. It reaches approximately 52.0M* households in the US.



Launched in 2009, EPIX is a premium cable/satellite TV network and subscription video-on-demand service. It is a JV between Viacom, MGM and LionsGate, and Viacom handles the operational support for the channel. It competes with HBO and Starz.



Logo was launched in 2005 and is focused on the lesbian, gay and transgender audience. It reaches approximately 52.2M* households in the US.



CMT (Country Music Television) focuses on the production and airing of country music videos, concerts and biographies of country music stars. CMT reaches approximately 91.3M* households in the US.



Spike targets males by featuring a mix of comedy and drama series along with movies, all of which primarily appeal to men. It reaches approximately 98.7M* households in the US.



TR3S focuses on the Latin American audience. It features content in both Spanish and English languages for bilingual audiences between the ages of 12 to 34. It reaches approximately 36M* households.



TV Land (originally "Nick at Nite's TV Land") distributes classic TV series as well as reality series and recently released movies. It is received by approximately 96.3M* households in the US.

* AS AT AUGUST 2013

**VIACOM INC: HOME TO SOME OF THE WORLD'S
PREMIER ENTERTAINMENT BRANDS**

**S T A R T R E K
I N T O D A R K N E S S**

*Star Trek – Into Darkness, directed
by J.J. Abrams was the highest-
grossing movie in the Star Trek
franchise, with gross earnings of
over US\$ 467M worldwide*



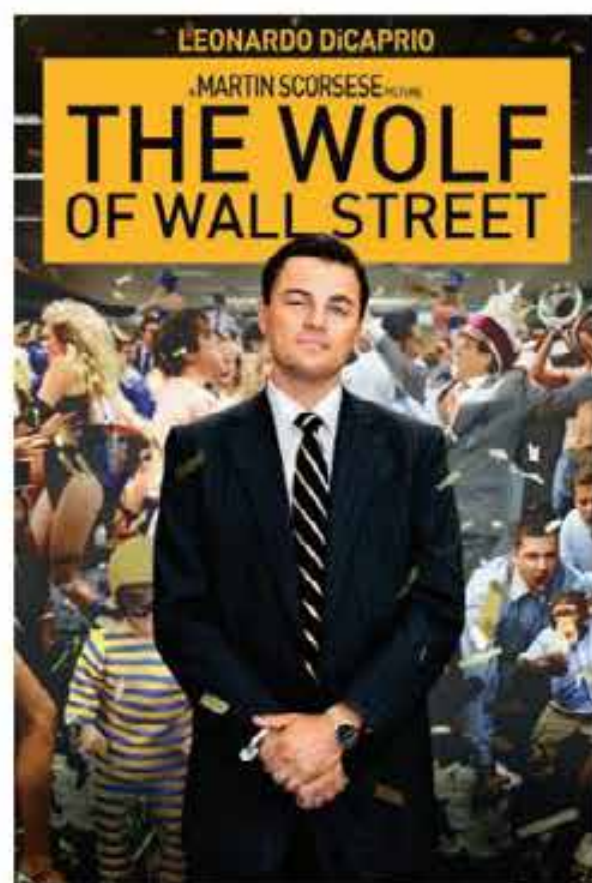
Currently, Paramount Pictures owns the distribution rights for the first four Indiana Jones movies, and will receive “financial participation” from additional films from the series



VIACOM INC: VIA DISTRIBUTION RIGHTS



VIACOM INC: HOME TO SOME OF THE WORLD'S PREMIER ENTERTAINMENT BRANDS



VIACOM INC: VIA CONTENT OWNERSHIP

The world
will never be the same

once you've
seen it through the eyes of
Forrest Gump.

Tom Hanks is Forrest Gump



July 6

Paramount Pictures presents a Steve Tisch/Wendy Finerman production a Robert Zemeckis film Tom Hanks Forrest Gump Robin Wright Gary Sinise Mykelti Williamson
and Sally Field with Charles Newirth adapted by Joanna Johnston with Alan Silvestri music by Joel Silll with Arthur Schmidt production design by Rick Carter
story by Don Burgess based on the novel by Winston Groom screenplay by Eric Roth
A Paramount Communications Company
© 1994 Paramount Pictures. All Rights Reserved.

VIACOM INC: OWNERSHIP – SUMNER REDSTONE AND NATIONAL AMUSEMENTS

- National Amusements Inc (NAI) was founded in 1936 as the Northeast Theatre Corporation by Michael Redstone
- Sumner Redstone, the son of Michael Redstone is currently the majority owner of NAI (80%), and his daughter Shari Redstone owns the remaining 20%
- NAI owns the majority of voting shares of Viacom, Inc (VIA.US) and CBS Corp (CBS/A.US), which makes Sumner Redstone the controlling shareholder of both public companies
- There was speculation that media bankers were pitching to potential acquirers of Viacom and/or CBS after the media mogul, who is 91, sounded feeble on a 13 November 2014 earnings call**



* DATA SOURCE: THOMSON REUTERS AS AT 3 FEBRUARY 2015

** [HTTP://NYPOST.COM/2014/12/04/EAGER-BUYERS-HOPING-FOR-EARLY-SUMNERS-END-TO-VIACOM-REIGN/](http://nypost.com/2014/12/04/eager-buyers-hoping-for-early-sumners-end-to-viacom-reign/)

VIACOM INC: FUTURE OWNERSHIP?



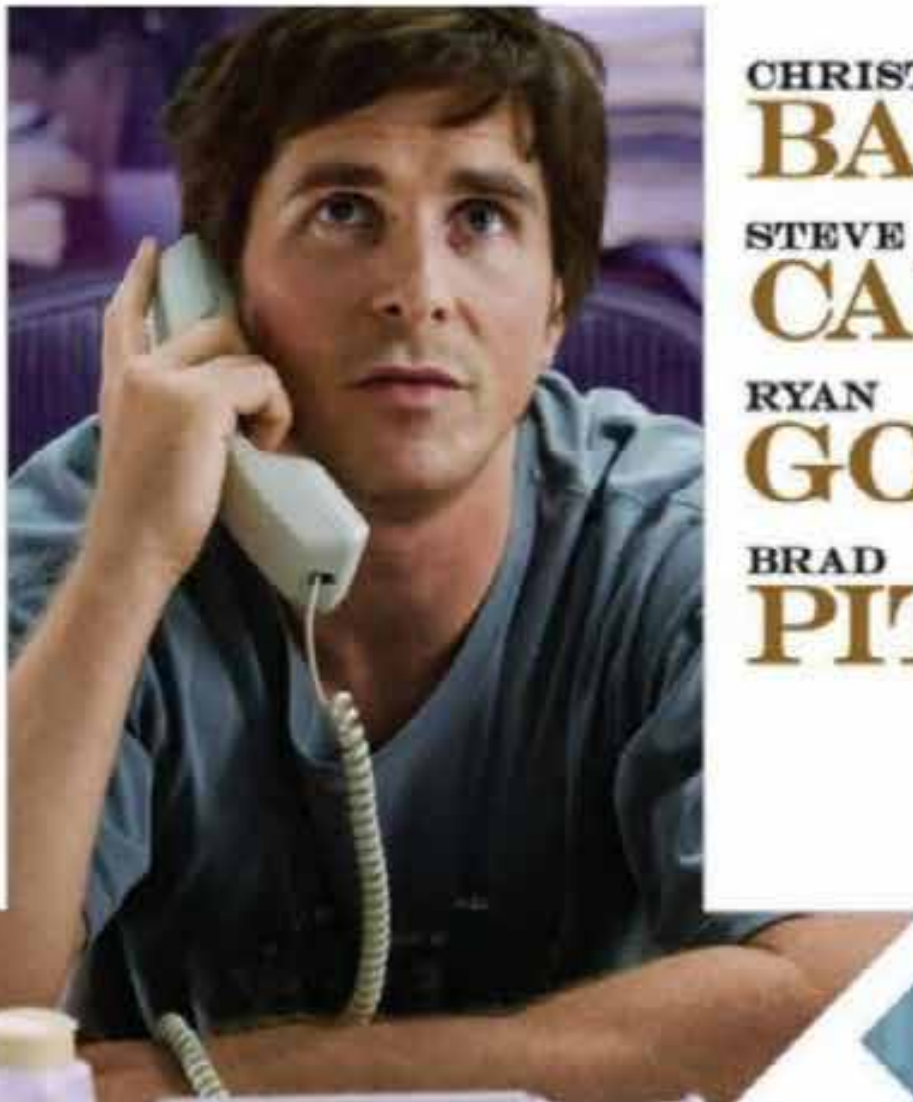
Few questions loom larger in American media than the fate of 91-year-old Sumner Redstone's estimated \$6.4 billion empire—comprised mostly of his controlling interests in CBS and Viacom. And though Redstone is fond of professing that he will live forever, in *Vanity Fair's* June issue, contributing editor William D. Cohan investigates rumors of the mogul's mental and physical decline, and the Shakespearean power plays at work in Redstone's kingdom as he nears his 92nd birthday.

Redstone, who seems to be off limits to outsiders these days, tells Cohan via e-mail that his routine hasn't changed much: "I still get up at 4:30/5 a.m. every day I ride my bike and go to the pool and get a haircut. I'm really into watching sports." But according to someone who recently visited with him, things sound far worse: "Sumner (a) cannot speak and (b) hasn't had a meal since Labor Day other than tubes. I think there's a big charade going on that Sumner's doing fine. . . . I think he's pretty out of it. . . . He can't speak, and I don't know how much he knows what's going on."

Viacom designated C.O.O. Tom Dooley and Carl Folta, longtime head of communications, to address questions about Redstone's health. According to Dooley, "His memory—you talk about remembering stuff? He would remember what we said two weeks ago, word for word. That's one of his most amazing skill sets over time is his ability to remember everything." Dooley does concede that "he's lost some of his mobility in his jaw," adding that Redstone has been working with a speech therapist. He does not walk well or easily and has round-the-clock staff to help him move. "He can't run out of a building," Dooley explains. Adds Folta, "He doesn't want to fall, like most people his age, and break something. He has somebody around him that can make sure that he doesn't slip."

Regarding the question of Redstone needing a feeding tube, Folta says, "We are not going to comment one way or the other because we respect Sumner's desire to keep private specific information about his health."

While Dooley says, "He's sharp as a tack," another source tells Cohan, "He's not. He really is not. It's a sham." Redstone's friend Robert Evans tells Cohan, "Like everybody else, Sumner has good days and bad days," but the legendary producer can't get off the phone fast enough when asked about Redstone's health: "I really don't want to talk about him." A person who visited with Evans recently broached the topic. "He looks like he's dead," he told Evans, who is said to have replied, "Well, you should see him in person—he looks even worse."



CHRISTIAN
BALE

STEVE
CARELL

RYAN
GOSLING

BRAD
PITT



AN ADAM MCKAY FILM

THE BIG SHORT

THIS IS A TRUE STORY



FROM THE AUTHOR OF
'MONEYBALL'
AND
'THE BLIND SIDE'



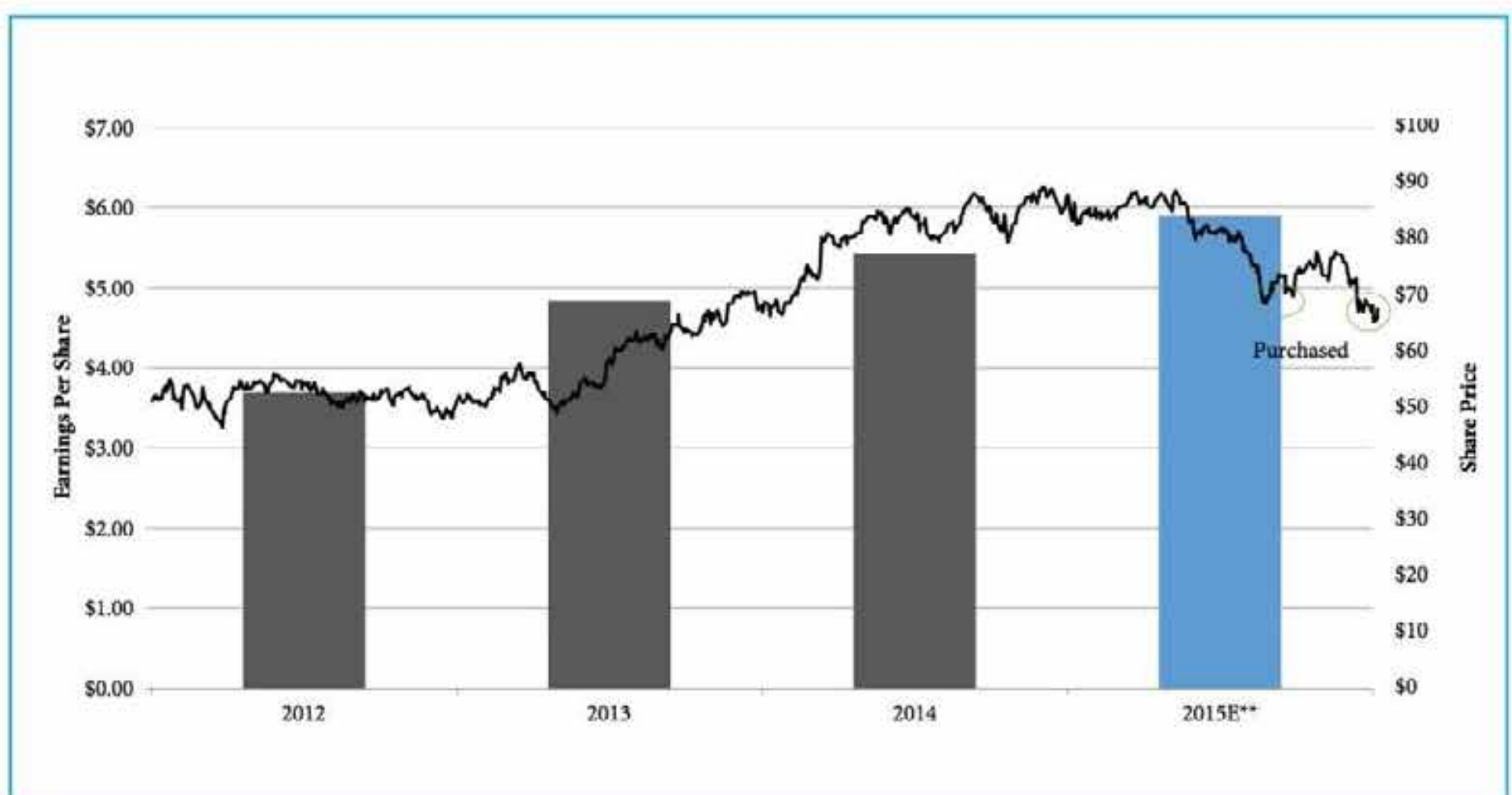
VIACOM INC: OPPORTUNITY – UNCERTAINTY AROUND AFFILIATE RENEWALS

- In 2014, some smaller pay-TV distributors such as Cable ONE and Suddenlink chose to drop Viacom's networks instead of renew its affiliate deal
- The market worries that Viacom might fail to reach an agreement with DISH which has 14M+ subscribers in the upcoming negotiation for the affiliate renewal
- At the same time, analysts are calling for a Viacom-CBS reunion or combination with another cable programmer to strengthen its negotiating power with pay-TV distributors



VIACOM INC: OPPORTUNITY – UNCERTAINTY PRESENTS OPPORTUNITY

- We believe the declining share price (down ~25%) since March 2014 provides an opportunity to invest in this great franchise with possible catalysts in the short to medium term
- We started to build our position in October 2014, at an average cost of US\$ 69.51 for the A shares (to date*)
- Current share price (Class A Share)* = US\$ 67.13 (Market Capitalisation = US\$ 26.4B)

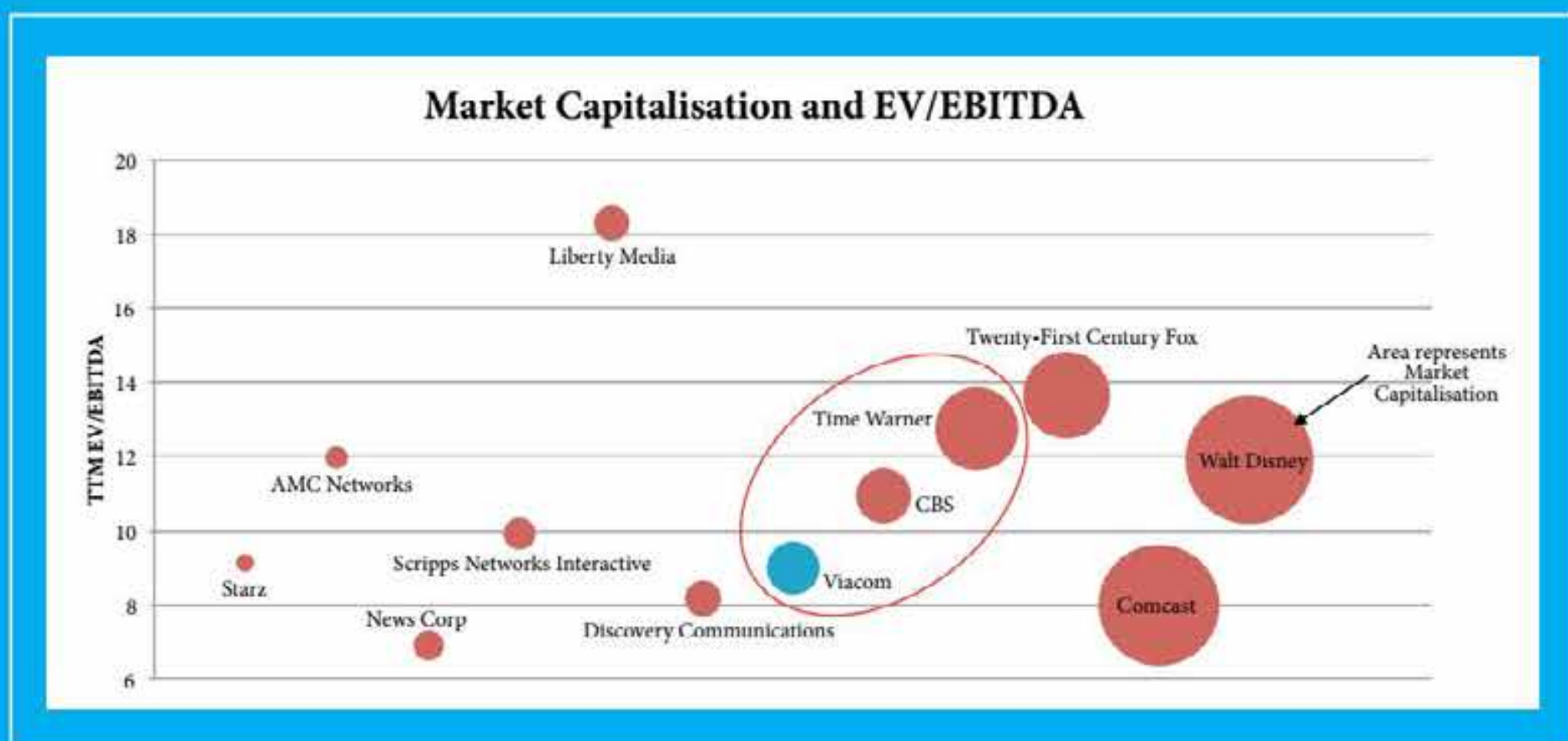


* AS AT 3 FEBRUARY 2015

** SOURCE: THOMSON REUTERS ESTIMATE AS AT 3 FEBRUARY 2015

VIACOM INC: VIACOM WITHIN THE GLOBAL MEDIA LANDSCAPE

- As technology and consumer habits evolve, content programmers need scale, a strategic partner, or both in order to thrive as the market becomes more global and digital
- Viacom is an attractive potential target for its larger peers / competitors, given the trend of consolidation in the industry (See possible mergers of Comcast/Time Warner Cable and AT&T/DirectTV)
- Viacom trades at a low valuation multiple and holds brands which may be extremely desirable to its competitors
- We believe that the most strategic value could be achieved via a merger between Viacom, CBS and/or Time Warner



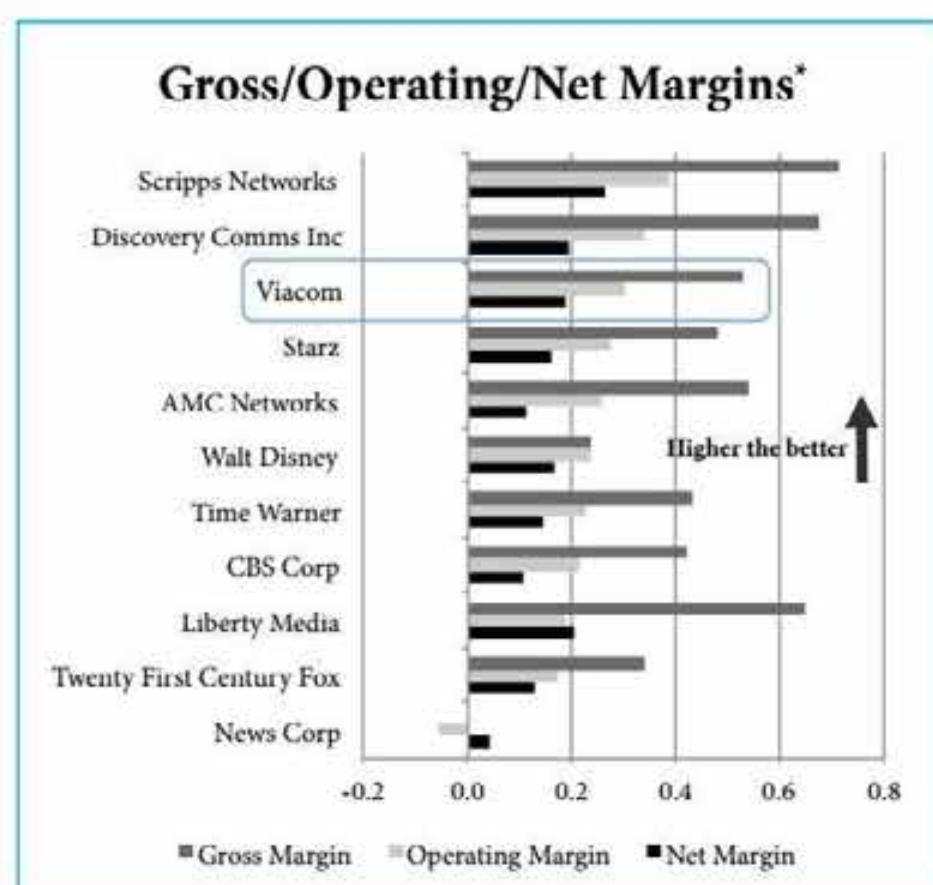
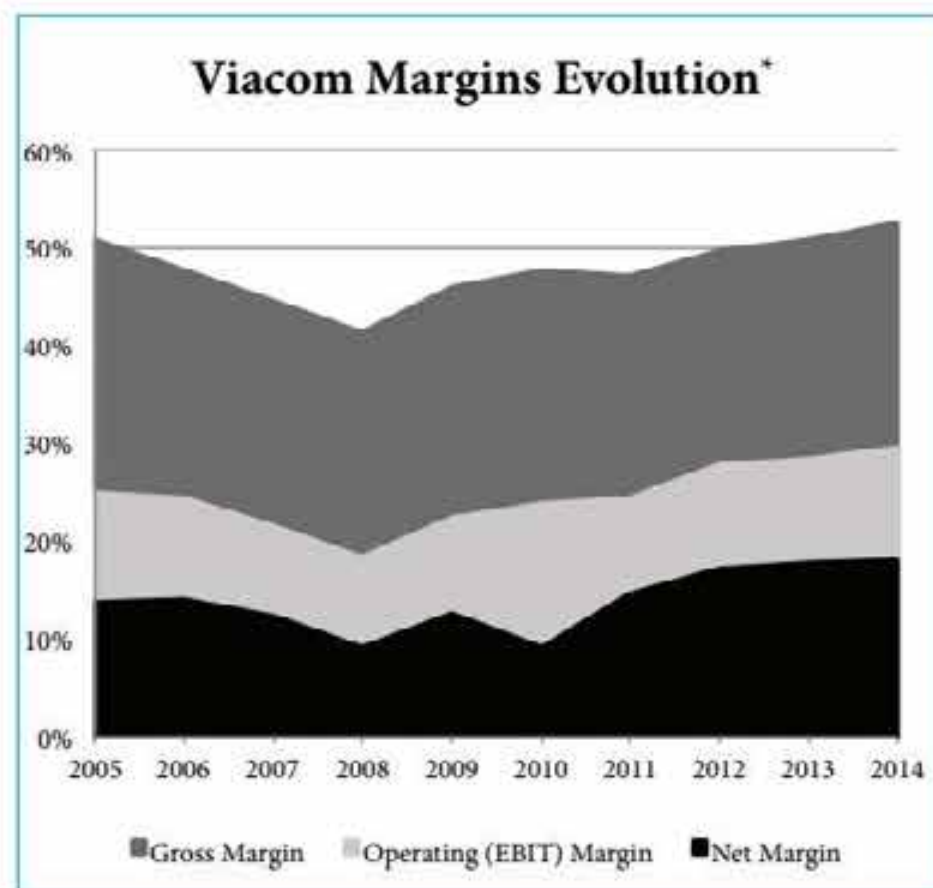
VIACOM INC: VERSUS GLOBAL PEERS

- Viacom trades at a significant discount to its global peers in all traditional metrics, except P/B because of the buyback program since 2011 that has reduced Book Value significantly
- The valuation metrics also suggest that the stock is undervalued on an absolute basis
- Viacom pays a higher dividend than its global peers (in fact the highest in the peer group), returning 1.95% to shareholders per annum on top of the share buybacks conducted by management

	Peer Group						
	Trailing P/E	Forward P/E	Price/Sales	EV/EBITDA	Price/Cash Flow	Price/Book	Dividend Yield
AMC Networks	22.0x	15.2x	2.4x	11.9x	16.6x	-11.5x	-
CBS Corp	23.5x	15.7x	2.1x	11.1x	15.8x	3.9x	1.1%
Discovery Communication Inc	14.1x	15.7x	2.2x	8.3x	14.2x	1.9x	-
Liberty Media	6.7x	43.4x	2.7x	18.2x	10.6x	0.3x	-
News Corp	31.9x	29.2x	1.0x	7.1x	12.9x	0.7x	-
Scripps Networks Interactive	19.9x	16.2x	3.7x	10.0x	12.4x	5.9x	1.1%
Starz	12.3x	11.9x	1.8x	8.9x	12.6x	55.9x	-
Time Warner	17.1x	16.9x	2.3x	12.7x	16.0x	2.6x	1.6%
Twenty-First Century Fox	18.5x	17.1x	2.2x	13.6x	20.8x	4.6x	0.7%
Walt Disney	21.7x	18.7x	3.2x	12.0x	15.8xx	3.5x	1.2%
Peer Group Median	18.5x	16.2x	2.2x	11.1x	14.2x	3.5x	0.7%
Viacom (Class A Share)	12.1x	11.1x	1.6x	8.9x	9.8x	7.9x	1.95%

VIACOM INC: THE MARGIN STORY

- There has been solid growth in Viacom's Gross, Operating and Net Margins since 2010. It is now one of the industry leaders in terms of profitability
- This is partially reflective of simple economic growth (businesses are more willing and able to invest in advertising)
- However, Viacom's margins are above industry peer group averages and reflect various cost saving initiatives as well as pricing power through strong brand recognition



DATA SOURCE: THOMSON REUTERS EIKON

VIACOM INC: CONSOLIDATION IN RESPONSE TO CONSOLIDATION?

Hollywood
REPORTER

Disney-Discovery? Fox-Viacom? Michael Wolff Predicts M&A Mania and a New Wave of Consolidation



Illustration by Thomas Kuhlerbeck

A new rush of deals is about to happen as Rupert Murdoch, Leslie Moonves and the rest of media look at content, not advertising, as the new financial engine.

This story first appeared in the April 24 issue of The Hollywood Reporter magazine.

Rupert Murdoch's foiled \$80 billion takeover of Time Warner last summer and Comcast's ongoing but stressed effort to pay \$45 billion for Time Warner Cable have underlined not so much the difficulties of big media mergers but the "What the hell happens now?" question.

Time Warner's public middle finger to Murdoch and 21st Century Fox hasn't solidified its independence so much as highlighted what a good idea a Time Warner acquisition might be and, to boot, emphasized the attractiveness of a supersize pure-play content business. Likewise, if the FCC kiboshes Comcast's TWC deal, as seems increasingly possible, that only would mean TWC, the No. 2 U.S. cable provider, would need another partner to fortify it in an ever-more-hostile business environment, hence giving other cable companies a chance to match ambitions with Comcast. And, too, it would mean Comcast would need another way to maintain its dominance.

Perhaps never before has consolidation been so much the flavor of the month, nor has it seemed so difficult to get a taste. The table is set, but nobody's sitting down to eat.

On one side, you have largely invulnerable companies: Disney, Fox and Comcast, ultimate winners through 30 years of consolidation and deconsolidation. On the other side, you have everyone else jockeying for position and eyeing one another as marriageable partners — though nobody, so far, is even dancing: Time Warner, Viacom, CBS, Discovery Communications, Scripps Networks, AMC Networks, Starz, Sony, Endemol, Fremantle, Lionsgate; and, in distribution, Time Warner Cable, Cox, Charter, FiOS, DirecTV and Dish Network.

Quick! Every Mogul Into the Consolidation Clown Car!

MEDIA CONGLOMERATIONS IN PLAY

VIACOM

SUITORS: DISCOVERY, 21ST CENTURY FOX, DISNEY

CEO Philippe Dauman's aging cable properties might benefit from being packaged with a broadcast network (such as ABC or Fox) and stronger cable stations (like ESPN) to help make better deals with cable operators.

Time Warner

SUITORS: CBS, DISNEY, FOX

CEO Jeff Bewkes also could benefit from a Big 4 network and greater programming talent among his top management (Leslie Moonves!).

CBS

SUITORS: VIACOM, DISCOVERY, TIME WARNER

So dependent on its flagship network, CBS might best be paired with strong cable stations.

Discovery

SUITORS: DISNEY, 21ST CENTURY FOX, CBS
Discovery needs a broadcast network and more diversified cable stations.



SUITORS: CHARTER, SCRIPPS, FIOS

If the Comcast merger falls through, TWC would need a partner to give it greater reach and better management.

VIACOM INC: CONSOLIDATION IN RESPONSE TO CONSOLIDATION?

- Content distributors have initiated a process of consolidation in 2014:
 - AT&T's pending US\$ 67B acquisition of DirecTV
 - Comcast's pending US\$ 67B acquisition of Time Warner Cable
 - Media General's US\$ 1.6B acquisition of LIN Media
 - Liberty Media's US\$ 12.7B acquisition of Ziggo
- In response, content producers may also need to consolidate in order to maintain their negotiating positions with distributors
- The table below details M&A transaction precedents (where content producers are M&A targets) over the past 12 years, demonstrating a median takeover multiple of 16x EV/EBITDA
- We apply the conservative ("low-end") multiple of 12x in order to generate what we believe Viacom may be worth in a takeover situation, generating an estimated intrinsic value of US\$ 109.66 per share

Recent Transactions*

Transaction	Acquisition Price	EV/EBITDA Multiple
Discovery Communications/Liberty Global acquisition of All3Media (2014)	US\$ 930M	8.5x
Twenty-First Century Fox rejected acquisition of Time Warner (2014)	US\$ 80B	12.6x
Disney/Hearst acquisition of A&E Networks (2012)	US\$ 19.2B	15x
Hasbro acquisition of Discovery Kids (2009)	US\$ 600M	19x
NBCU/Private Equity acquisition of Weather Channel (2008)	US\$ 3.5B	15x
Cablevision acquisition of Sundance Channel (2008)	US\$ 496M	14x
Cox acquisition of Travel Channel (2007)	US\$ 684M	18x
Time Warner acquisition of Court TV (2006)	US\$ 1.5B	18x
CBS acquisition of CSTV (2005)	US\$ 325M	17x
GE acquisition of USA Networks (2003)	US\$ 8.7B	17x
Transaction Sample Median:		16x

* SOURCES: DISCOVERY COMMUNICATIONS INC 8 MAY 2014 ANNOUNCEMENT, NEW YORK TIMES 18 JULY 2014 & BOYAR RESEARCH REPORT ON CROWN MEDIA - AUGUST 2012

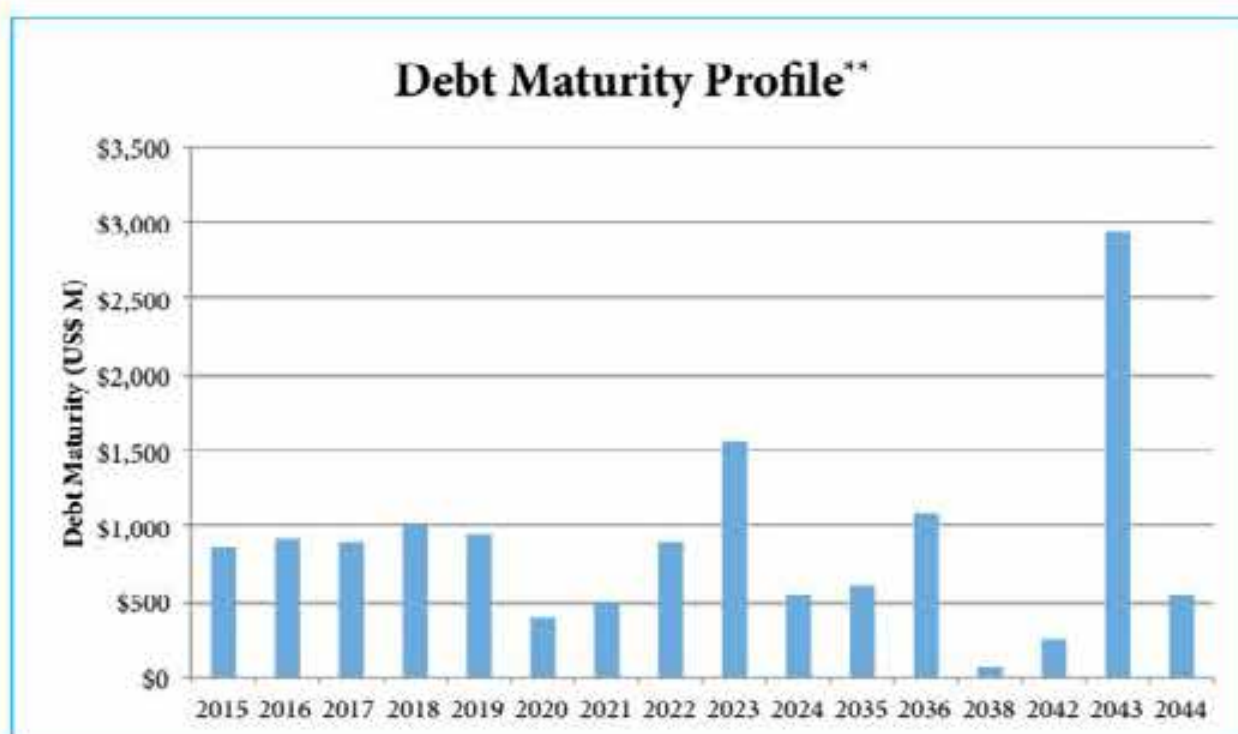
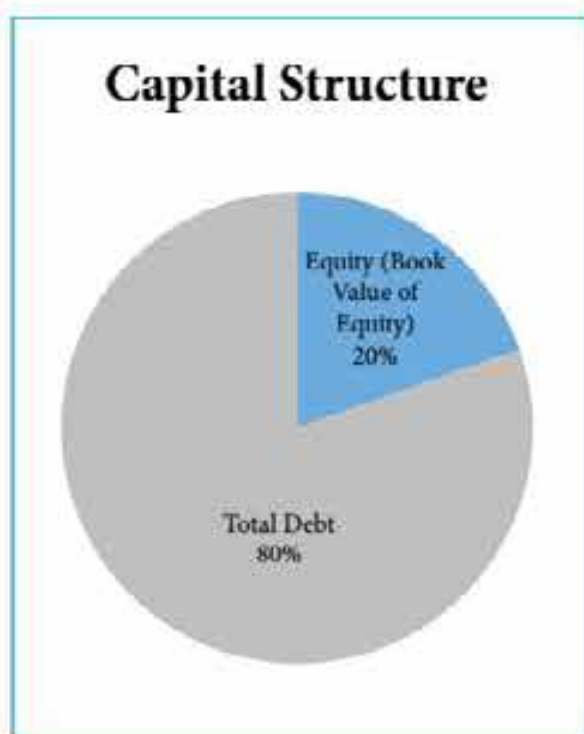
VIACOM INC: CAPITAL STRUCTURE

EQUITY

- Viacom has 50.6M A shares and 355.2M B shares outstanding. Current market capitalisation is ~US\$ 26.4B*

DEBT

- Viacom currently has US\$ 13.8B in total debt
- Viacom's capital structure reflects relatively high levels of debt in relation to equity. In terms of the Company's ability to sustain the debt however, we do not anticipate any problems. Viacom have undertaken a program of share buybacks over the past five years. This has increased the ratio of Debt to Equity and has directed cash away from the repayment of debt. However, as per management's comments, we believe more focus will be placed on paying down debt over the next one to two years.



* AS AT 3 FEBRUARY 2015

** DATA SOURCE: VIACOM INC Q1 FY2015 10Q REPORT

VIACOM INC: CLASS A AND CLASS B SHARES

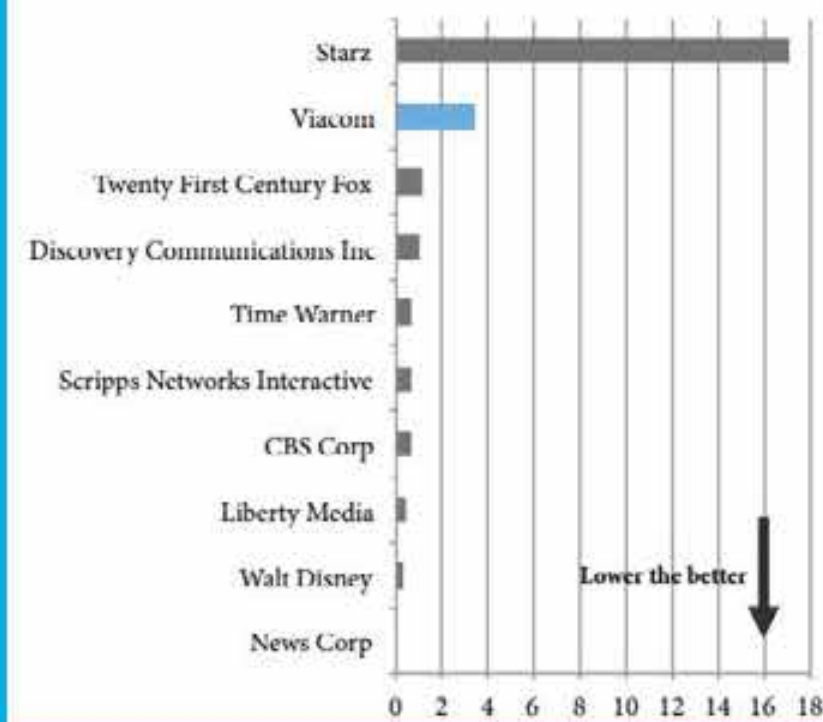
- In 2011, the spread between Class A (voting) and Class B (non-voting) reached a high of 26% based on rumours that Sumner Redstone would sell Viacom or relinquish control
- Since then the shares have converged and they currently trade at near parity (average spread since 1/1/2013 = \$0.49, approximately 0.7% of current price)
- For a negligible premium (depending on parcel size), voting shares can be acquired and this may be of some benefit in the future



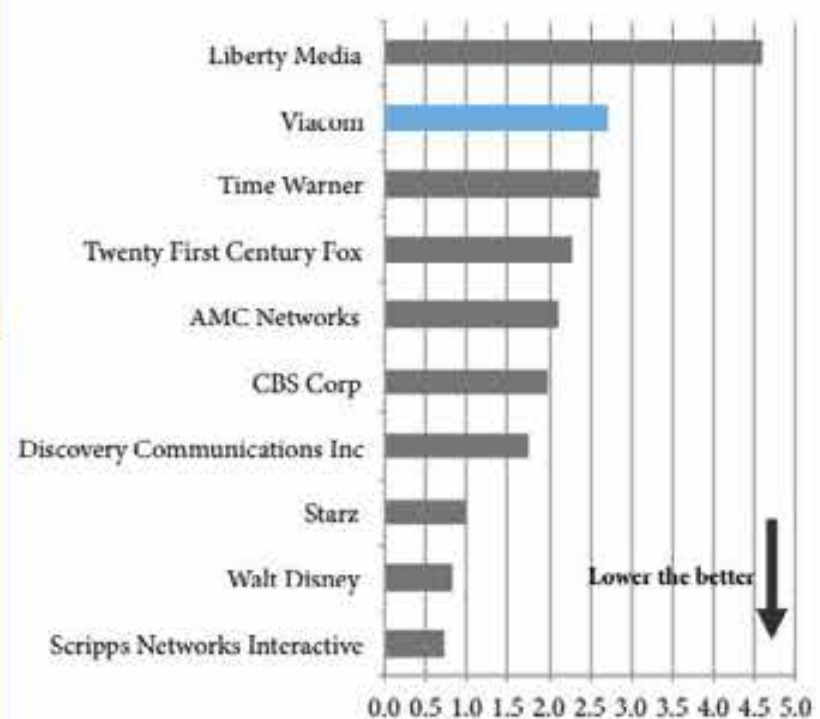
VIACOM INC: FINANCIAL LEVERAGE

- Viacom employs a higher level of financial leverage than its global peer group average
- Debt/Equity is 3.4x versus the global peer group average of 2.5x. However, this metric may be misleading. Viacom has increased its debt as a result of buying back shares while at the same time the buybacks have the effect of reducing the book value of equity
- We prefer the Net Debt/EBITDA metric as a measurement of the sustainability of Viacom's debt position. This metric demonstrates that Viacom's debt position is sustainable, at only a slightly higher level than its global peers

Total Debt/Equity

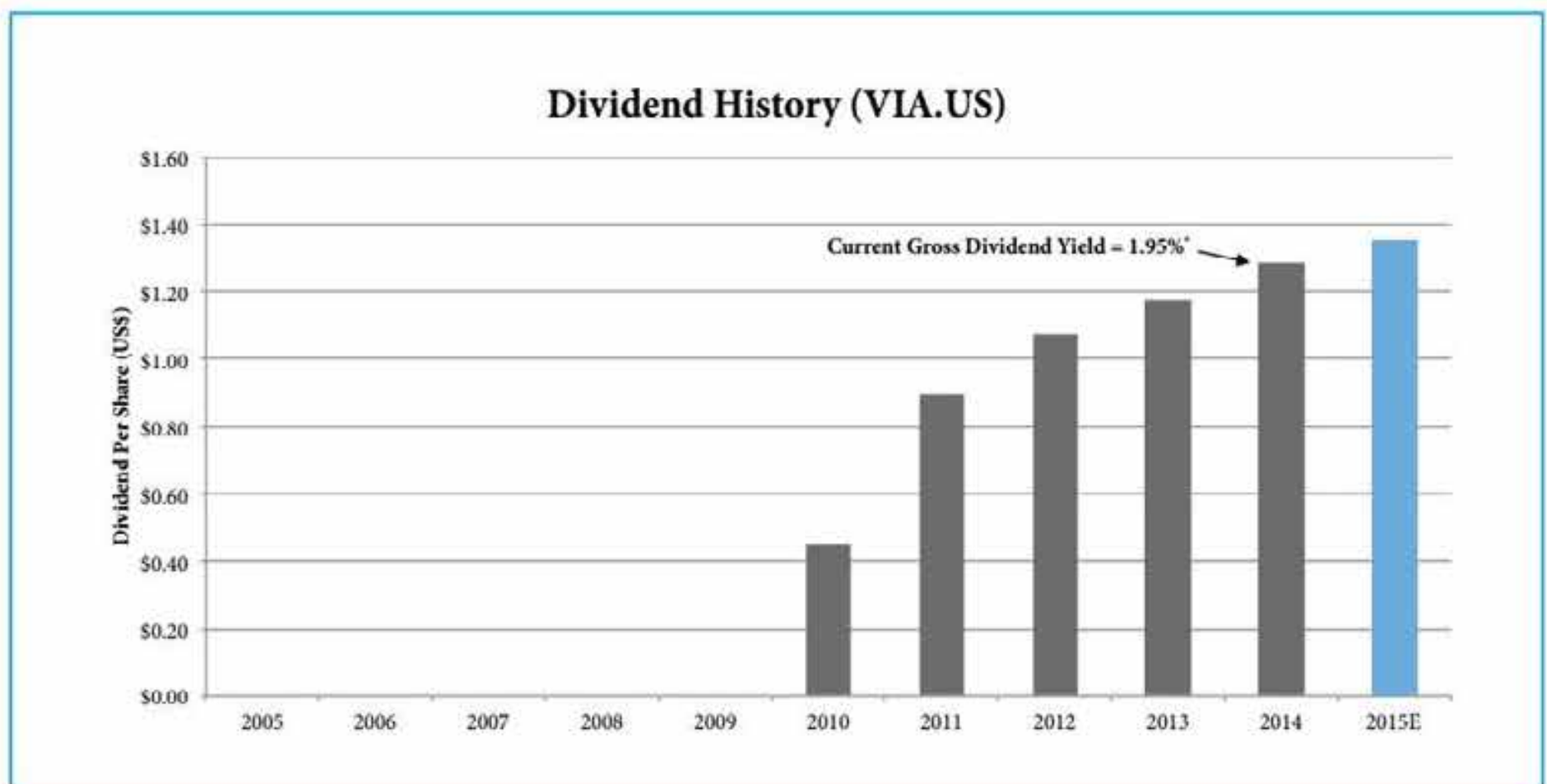


Net Debt/EBITDA



VIACOM INC: CAPITAL RETURN – DIVIDEND HISTORY

- Dividends per share have increased consistently since introduction in 2010 after the Viacom/CBS demerger in 2005
- The FY2014 dividend amounts to a 22.6% payout ratio
- Viacom currently has a Gross Dividend Yield of 1.95%*

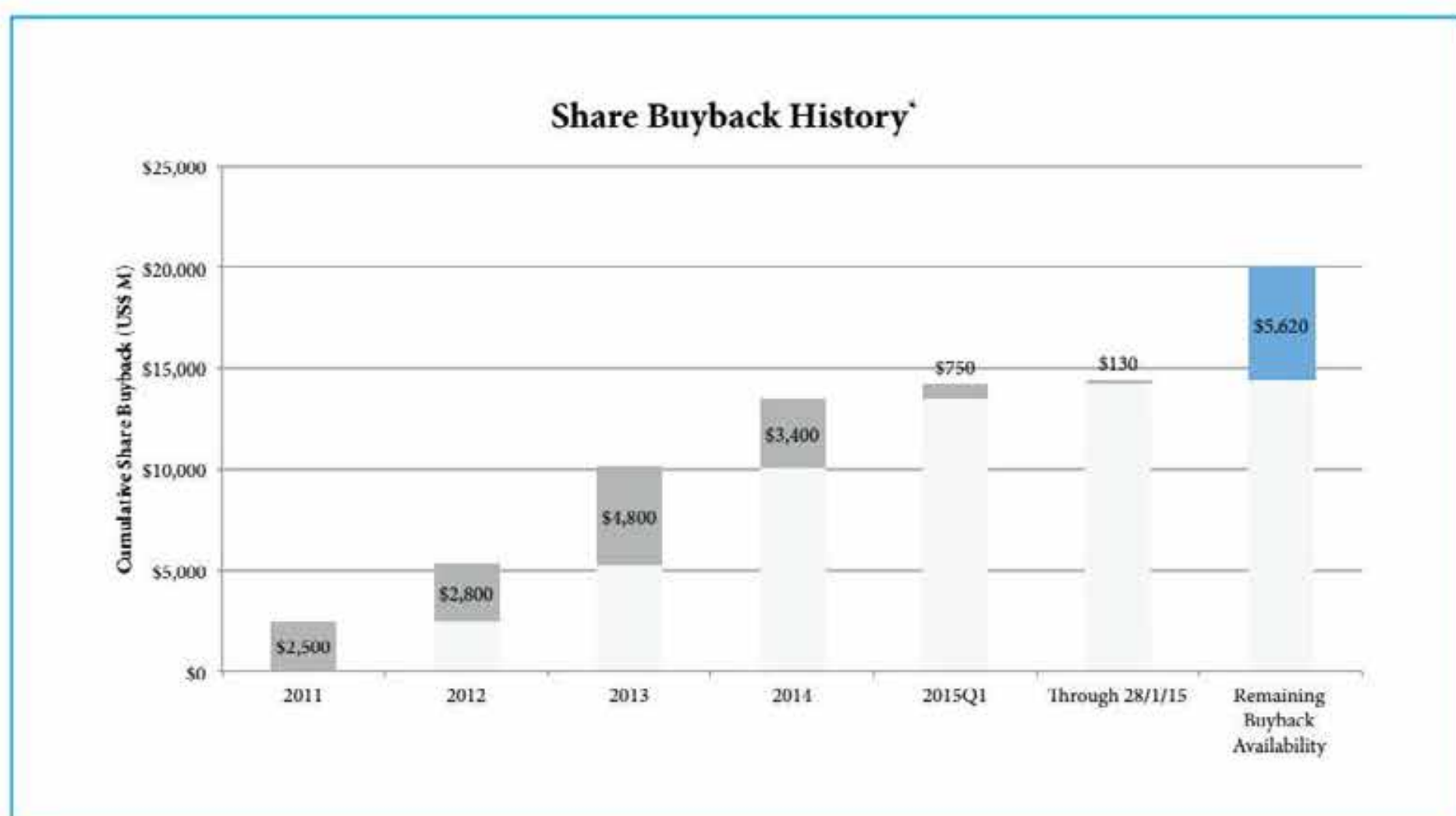


* AS AT 3 FEBRUARY 2015

DATA SOURCE: THOMSON REUTERS WORLDSCOPE AS AT 3 FEBRUARY 2015

VIACOM INC: CAPITAL RETURN – SHARE BUYBACKS

- The Company has a significant share buyback program (US\$ 20B authorised since 2011)
- US\$ 5.6B is still available for share buybacks* vs current market capitalisation of US\$ 26.4B
- In our view, this share buyback program benefits those existing shareholders that are not selling out, particularly Sumner Redstone. As they will own a larger chunk of the Company without buying one additional share with their own money



* SOURCE: VIACOM Q1 FY2015 PRESENTATION RELEASED ON 29 JANUARY 2015

VIACOM INC: ELEVATION CAPITAL'S VALUATION

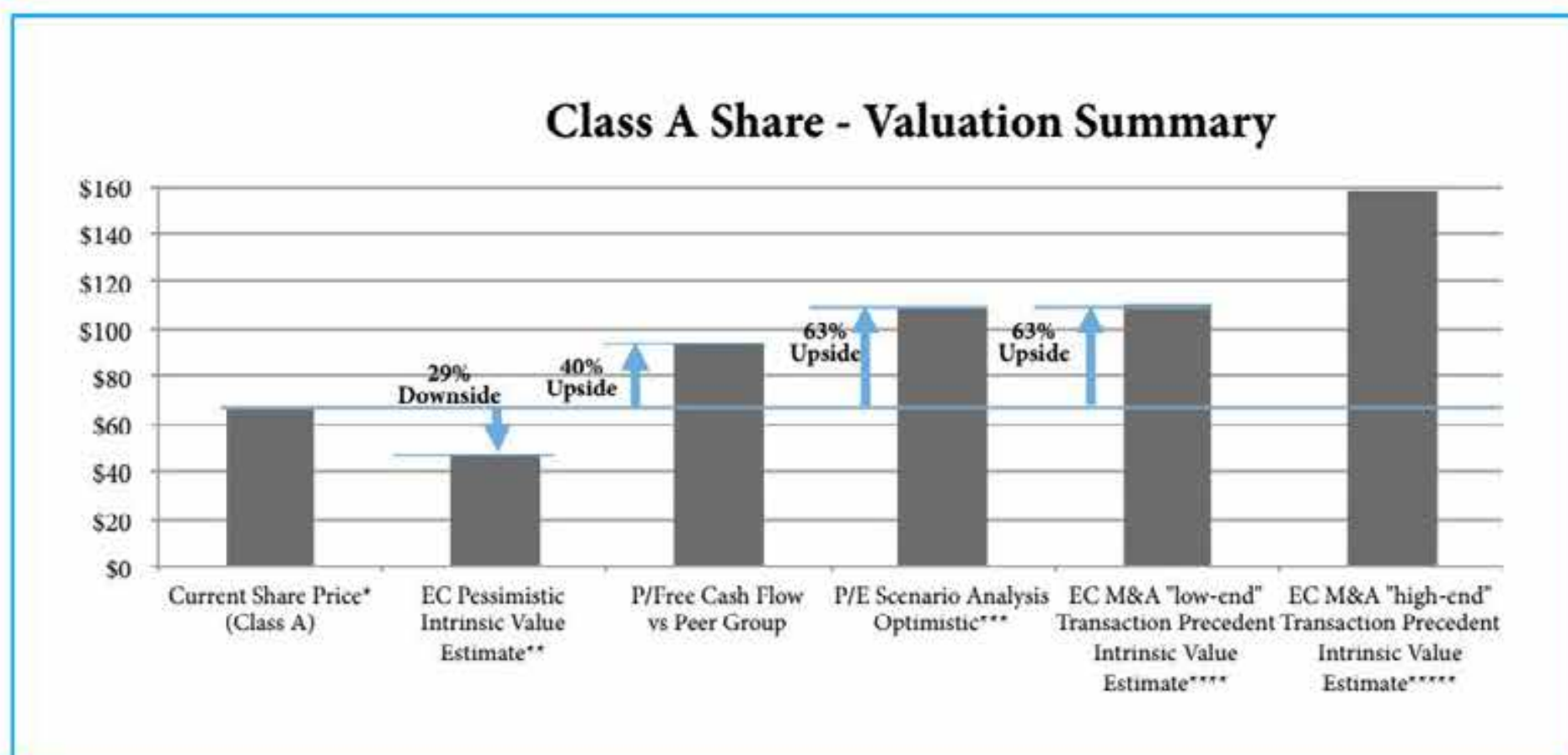
- We believe that Viacom is undervalued by the market on both a cross sectional (comparison with other companies), a time series (compared with its own historical trading multiples) basis and based on historical industry consolidation multiples (Even assigning a small discount to Twenty-First Century Fox's failed offer for Time Warner in 2014)

ELEVATION CAPITAL
ESTIMATED INTRINSIC
VALUE RANGE:

**US\$ 47.49 -
US\$ 109.66
PER
PER SHARE**

DOWNSIDE/UPSIDE
POTENTIAL
RANGE:

-29% - +63%



* VIACOM CLASS A SHARE PRICE AS AT 3 FEBRUARY 2015

** BASED ON EC PESSIMISTIC SCENARIO OF A 20% DECLINE IN 2015 NET INCOME AND A P/E MULTIPLE OF 9.7X (20% DISCOUNT TO CURRENT P/E)

*** BASED ON 19X 2016 ESTIMATED OPTIMISTIC CASE EPS DISCOUNTED TO PRESENT VALUE (DISCOUNT RATE = 8%) - VALUATION = US\$ 109.43 PER SHARE

**** BASED ON CONSERVATIVE ("LOW-END") ESTIMATED M&A TRANSACTION EV/EBITDA MULTIPLE OF 12.0X - VALUATION = US\$ 109.66 PER SHARE

VIACOM INC: KEY OPPORTUNITIES

M&A OPPORTUNITIES

Viacom is a company which has been formed by M&A and further opportunities may lie in this area. The average transaction EV/EBITDA multiple among our sample of transactions is 16.0x. We apply a conservative multiple of 12.0x to generate a valuation of US\$ 109.66 per share, which we believe Viacom may be worth in a takeover situation.

The suggestion that Viacom and CBS would mutually benefit from a remerge is an intriguing one considering that they inhabit an industry which is seeing consolidation driven M&A and in which the benefits of scale allow for a significantly enhanced negotiating position with content distributors. The fact that these two businesses have a common history and a common controlling shareholder (Sumner Redstone through National Amusements) adds to the viability of the opportunity.

CHANGES IN OWNERSHIP STRUCTURE

Any change in the ownership structure of the firm, possibly through the reduction of Sumner Redstone's voting interest in the business, could be a positive catalyst for share price. There is no logical basis for the discount at which Viacom trades besides the lack of shareholder control. To this end, any event or factor which may change this dynamic may have a positive effect on shareholder returns.



CBS CEO Leslie Moonves and Viacom CEO Philippe Dauman, both highly regarded by Sumner Redstone.

VIACOM INC: A REUNION OF VIACOM AND CBS?

- As technology and consumer habits evolve, content programmers such as Viacom need scale, a strategic partner, or both in order to thrive as the market becomes more global and digital
- Recent consolidation among content distributors (e.g., possible mergers of Comcast/Time Warner Cable and AT&T and DirectTV) makes consolidation among content providers almost inevitable
- Several analysts are calling for Viacom to consider a reunion with CBS Corp. The key benefits for Viacom would be scale, sports rights and diverse programming that would make it harder for pay-TV distributors to negotiate fees, or to drop Viacom
- Other benefits include synergy between CBS TV studio and Paramount Pictures
- If Dish decides to drop Viacom from its offering, there would be tremendous pressure for Management and Sumner Redstone to consider a merger of the two companies



Demographic	Older audiences	Younger audiences
Focus	General entertainment	Niche markets
Sports	Available	Not available
Studio	TV studio	Film studio
Movies	Showtime (originals)	EPIX (movies)
Video Content	Content syndication	International distribution

VIACOM INC: KEY OPPORTUNITIES (CONTINUED)

KEY BRANDS/DIVERSIFICATION OF CONTENT

For the producers of television and film content, the appeal to advertisers is key. This appeal is a function of a number of factors, however one of the most important aspects is that the advertisers know who they are advertising to. Viacom have been careful to diversify their range of productions while at the same time tailoring some of their most popular television offerings to specific audiences. They have catered to fast growing groups of consumers. For instance, Latin Americans with their TR3S offering and the African American audience with the BET channel. This makes their content more easy for advertisers to use and therefore more appealing.

Additionally, Paramount is, as an asset, the jewel in Viacom's crown. It is the second largest movie producer and distributor in the world and its continued success is vital to Viacom. Movies such as the recently released *Interstellar*, produced by Paramount, which hit US\$ 449M in ticket sales worldwide will help this.

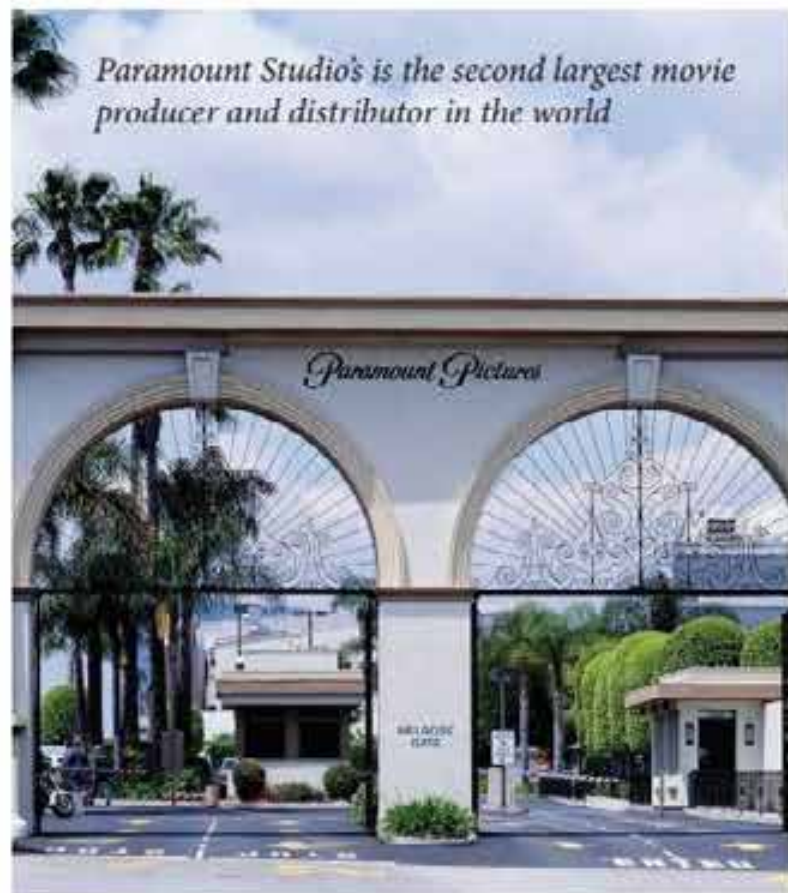
MARGIN OF SAFETY

For the investor, there is a clear "margin of safety" in Viacom. The assets and brands owned by Viacom are among the most renowned in the world. Likewise, the company has been able to maintain high margins relative to the industry as well as high ROE and ROA. It has also proven to be a strong generator of free cash flow. Despite this, the company trades at a discount to its peers and to what we believe is its intrinsic value.

*BET Announces Premiere
of New Original Series
#THEWESTBROOKS*



*Paramount Studio's is the second largest movie
producer and distributor in the world*



VIACOM INC: KEY RISKS

THEFT OF COPYRIGHT

As Viacom is in essence a media content distributor, it is sensitive to the issue of copyright theft. This may be through the illegal reproduction or distribution of copyrighted material which disrupts Viacom's ability to distribute and monetise their content. The increased prevalence of pirated movies available on the internet is reducing the profitability of the movie business in particular.

CHANGES IN AUDIENCE TASTES

The majority of Viacom's products are subject to measurement of audience size and therefore the audience impressions of the content produced by Viacom are key to the revenue they derive from advertising. Similarly, changes in the way viewers receive the content distributed by media organisations due, for example to changes in technology platforms, are difficult to predict and may effect Viacom negatively if they fail to predict the direction of technological development. Consumers are increasingly viewing content on an on demand basis from websites. Changes such as this necessitate the development of new distribution models and create new risks.

ECONOMIC CONDITIONS

Advertising spend is highly sensitive to the economic cycle and therefore the level of advertising revenue received is highly correlated with the economic cycle. As Viacom depends on advertising for 36% of its revenue, the appetite of advertisers is highly relevant to Viacom's fortunes.

COMPETITION

The cable, motion picture and digital content industries compete vigorously for viewers, advertising revenue and distribution relationships. Competition has increasingly come from new sources, including online producers and pirated content. The ability of Viacom to compete to a sufficient standard comes down to the ability of the business and its subdivisions to create or acquire popular programs or movies and adapt to the new technology platforms which are increasingly required for optimal distribution.

CONTROL

Sumner Redstone controls ~80% of Viacom's voting shares through his holding of A class shares via National Amusements. This means he has absolute control over the company in all matters. The lack of control for shareholders is the principal reason for the discount at which Viacom trades relative to its peers. This has led to some developments which are not necessarily in the best interests of shareholders. For instance, Redstone received a salary of US\$ 10.20M for his role at Viacom and US\$11.75M for his role at CBS during 2013. Even Mario Gabelli, a supporter of Sumner Redstone and a major holder of the Viacom voting shares which are not held by Redstone, has said this is an issue for shareholders.

DEBT

We believe that Viacom's debt levels present a risk to investors. However, given its strong free cash flow generation, Viacom is able to support relatively high debt levels.

* EXCLUDING STARZ THAT HAS A TOTAL DEBT/EQUITY OF 17.1X

VIACOM INC: ELEVATION CAPITAL VIEW

VALUE FOR INVESTORS, BUT NO CONTROL

Viacom is undervalued relative to its peers based on a number of measures. It generates a higher free cash flow yield than its peers, it pays a higher dividend (1.95% yield relative to a global peer group average of 0.7%), it has bought back a considerable amount of shares over the past five years and it includes among its assets some of the most popular television network channels in the world and one of the most prestigious film production labels. Despite this, Viacom shares continue to trade at a significant discount relative to peers (PE (TTM) of 12x relative to a peer group average of 18x). The only explanation for this is related to the ownership structure of Viacom. It has two classes of shares, A and B. The A class shares are the only shares with voting rights and ~80% are owned by Sumner Redstone. This gives Redstone absolute control of the company, a fact which has made investors wary. However, any change in the ownership dynamic may be a positive catalyst for shareholders. Redstone is 91 years of age.

A HOLLYWOOD INSTITUTION

- Viacom has eleven of the top 50 cable networks*
- Viacom has eight of the top 30 that reach the best age demographic – 18 to 49*

Viacom owns some high quality assets in the form of popular television channels and one of the most respected film production and distribution companies in the world. These assets provide Viacom with an advantage against competitors, particularly in specific areas such as children and adolescents (through Nickelodeon and the associated channels) as well as minority populations (through Black Entertainment Television (BET) and TR3S, which target African American and Latino American populations respectively). The benefit of targeting specific audiences is that advertisers know the audience which they are targeting and can therefore tailor their advertising to the audience more easily, making the content more appealing.

FINANCIALS

Revenue has been inconsistent since the split with CBS in 2006, however, both EBITDA and Net Income have grown moderately and margins have increased steadily. The Balance Sheet is potentially misleading as the book value of equity has been steadily decreasing as total debt has been increasing. This is a result of the share buyback program undertaken by management which has had the effect of decreasing book value of equity and increasing debt. By the most relevant measure of debt, namely Net Debt/EBITDA, Viacom is slightly more leveraged than its peers. Viacom's strong free cash flow generation and enthusiasm for returning capital to shareholders bodes well for future dividend growth. The stock currently has a dividend yield of 1.95% and we believe the pay-out ratio could be increased further.



* SOURCE: [HTTP://ONLINE.BARRONS.COM/ARTICLES/BARRONS-2015-ROUNDTABLE-PART-2-GETTING-DOWN-TO-BUSINESS-1422078667](http://online.barrons.com/articles/barrons-2015-roundtable-part-2-getting-down-to-business-1422078667)

VIACOM INC: CONCLUSION

Viacom represents value despite the lack of control for shareholders. It demonstrates strong cash flow generation and a commitment to returning capital to shareholders via share buy backs and dividend payments. Given the steady nature of its free cash flows we would expect that Viacom will, in the future, continue to grow dividends given its current pay-out ratio of 22.6%. Assets such as Paramount, Comedy Central, Nickelodeon and MTV have enduring appeal for viewers and will continue to generate strong advertising revenues. Other assets such as BET and TR3S target specific demographics and thus make it easier for advertisers to target specific audiences.

Any change in the ownership structure of Viacom will be beneficial for owners and this may come sooner rather than later. In the meantime, Viacom pays a modest but growing dividend and investors pay significantly less for the business in terms of earnings and cash flows than they would for its peers.



CONTACT US

Elevation Capital Management Limited

1 Akaroa Street
Parnell
Auckland 1052
New Zealand

Phone: + 64 9 307 6741

Website: www.elevationcapital.co.nz
Email: info@elevationcapital.co.nz
Twitter: ElevationNZ

'INDEPENDENT THINKING – DISCIPLINED INVESTING'

INDEPENDENT THINKING

[In-de-pend-ent Think-ing] **ində'pendənt THiNkiNG** *verb*

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying. We also believe that cash is sometimes the most attractive investment.

DISCIPLINED INVESTING

[Dis-ci-plined In-vest-ing] **disciplinəd inves'ting** *verb*

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. Our investments are premised on the concept of "Margin of Safety" which we believe reduces risk.

