

RESEARCH ANNUAL 2016

Dear Investors,

IT IS WITH GREAT PLEASURE WE PRESENT THE ELEVATION CAPITAL RESEARCH ANNUAL 2016

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 invēs'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 are presented on an annual basis in this format.

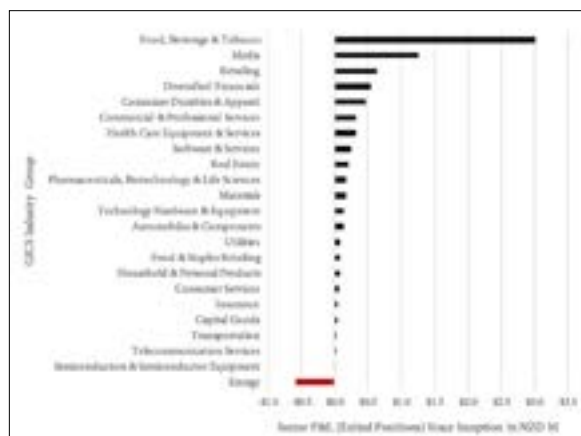
While it is important to be able to articulate our investment process and ideas clearly, it is also critical to ensure those ideas add value. With this in mind we have also published our “batting average” and “industry contribution data” from within the Elevation Capital Value Fund.

From Inception Date - 9 December 2008 to 31 December 2016 the portfolio data” and “industry contribution data” is as follows:

Portfolio Data Since Inception

Number of Exited Positions: 202
Profitable Positions in New Zealand Dollars: 165
Profitable Positions in Local Currency: 174
Batting Average* in New Zealand Dollars: 81.7%
Batting Average* in Local Currency: 86.1%

Industry Contribution Data (Since Inception)



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.

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Elevation Capital is the manager of the Elevation Capital Value Fund (“Fund”). A copy of the Product Disclosure 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 9 379 6493

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EDGEWELL PERSONAL CARE COMPANY

LUXOTTICA GROUP

PROCTER & GAMBLE COMPANY

2016 CALENDAR YEAR HIGHLIGHTS



In October 2016, Elevation Capital sold Jimmy Choo for a +25.3% (GBP) return.

TOTAL RETURN FOR THE CALENDAR YEAR (AFTER FEES & FUND TAXES) WAS **+11.6%**

This was achieved with no more than 4.5% of the portfolio invested in any one holding and with an average cash balance of approximately 20% (i.e. \$20 out of every \$100 remained in cash).

26

INVESTMENTS EXITED
IN 2016

25

OF THESE
WERE PROFITABLE

+25%

AVERAGE RETURN
ON PROFITABLE INVESTMENTS

CONGRATULATIONS TO RICHARD MILSOM
OF ELEVATION CAPITAL WHO WAS A
FINALIST FOR THE **INFINZ EMERGING
LEADER OF THE YEAR 2016 AWARD**



"BEST IDEA" COMES TO FRUITION

CHRISTOPHER SWASBROOK PRESENTED ON ADIDAS AT THE
BEST IDEAS CONFERENCE IN 2015

*Adidas was sold in
2016 for a per annum
return of*

49.1%



2016 FINANCIAL YEAR HIGHLIGHTS

#1
POSITION

What They're Wearing This Year



1886



1944



1968



2013

TIFFANY & CO.
NEW YORK SINCE 1837

AT

4.12%

TIFFANY & CO. IS THE LARGEST
POSITION IN THE FUND*



25

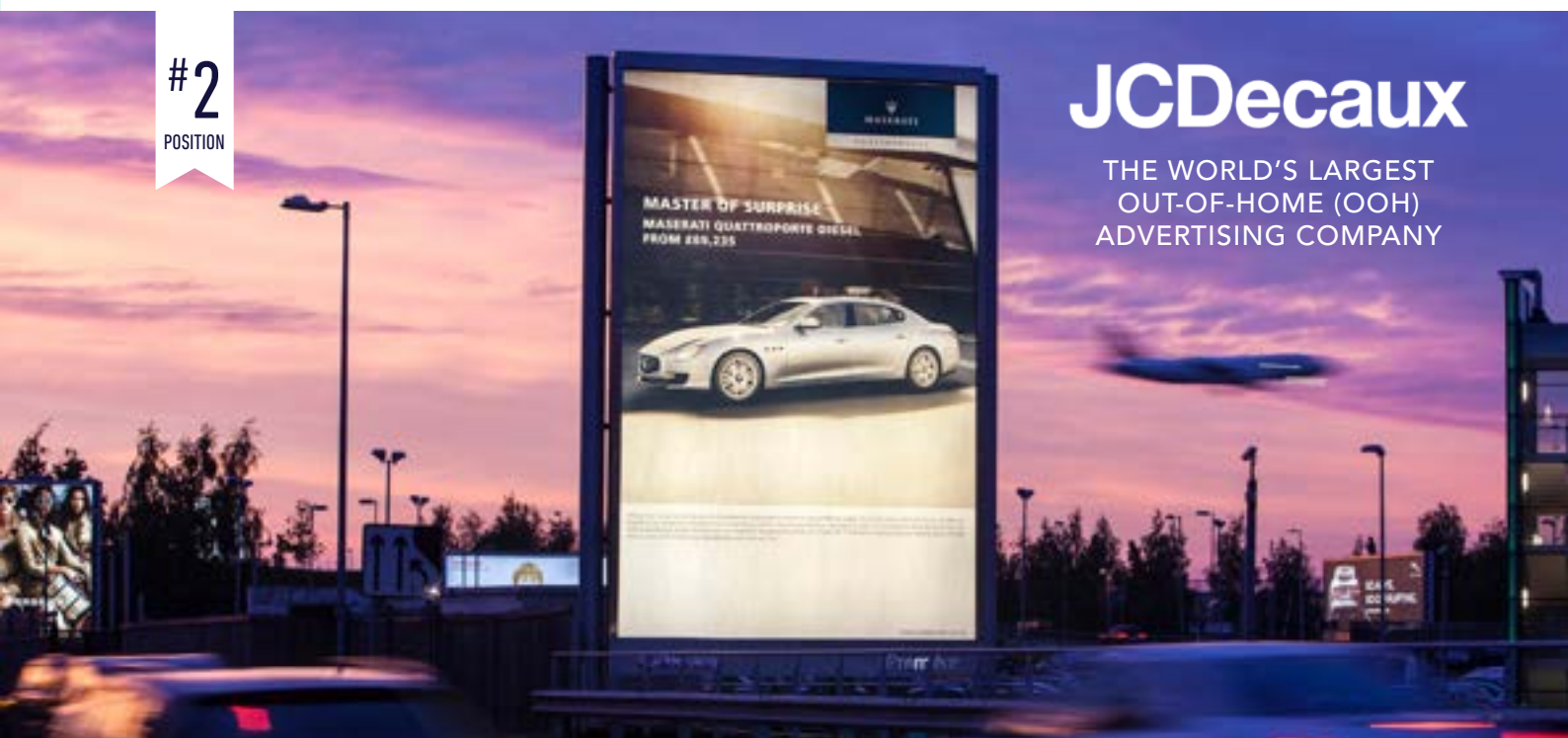
STOCKS HELD AT THE
END OF THE 2017
FINANCIAL YEAR*

25.14%

CASH BALANCE AT THE
END OF THE 2017
FINANCIAL YEAR*

*AS AT 31 MARCH 2017

#2
POSITION



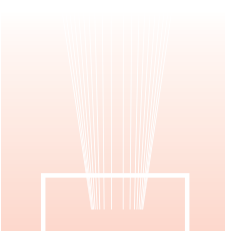
JCDecaux

THE WORLD'S LARGEST
OUT-OF-HOME (OOH)
ADVERTISING COMPANY

ELEVATION CAPITAL WAS NAMED...

MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY
FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

Morningstar Awards 2017 (c). Morningstar, Inc. All Rights Reserved. Awarded to Elevation Capital for International Equities Category Fund Manager of the Year 2017, New Zealand.



Awards
2017™



2016 INVESTMENT REALISATIONS

2016 INVESTMENT REALISATIONS

26

REALISED INVESTMENTS
IN 2016

25

REALISED POSITIONS WERE
PROFITABLE IN 2016
(IN LOCAL CURRENCY TERMS)

1

REALISED POSITION WAS
UNPROFITABLE IN 2016
(IN LOCAL CURRENCY TERMS)

+25%

AVERAGE RETURN ON PROFITABLE
REALISED INVESTMENTS
(IN LOCAL CURRENCY TERMS)

96%

BATTING AVERAGE* IN 2016
(IN LOCAL CURRENCY TERMS)

2016 REALISED INVESTMENTS BY COMPANY

Company	Domicile	Initial Position	Exited Position	Holding Period (Years)	Total Return (Local Currency)	Per Annum Return** (Local Currency)	Presentation on Website
 HEINEKEN		Nov 2010	Apr 2016	5.4 yrs	+111.2%	+27.0%	
 adidas		Aug 2014	Feb 2016	1.5 yrs	+69.9%	+49.1%	●
 Mondelēz International		Oct 2012	Dec 2016	4.2 yrs	+43.3%	+16.8%	●
 Time Warner		Nov 2015	Dec 2016	1.1 yrs	+40.3%	+40.3%	
 REMY COINTREAU		Jan 2014	Jul 2016	2.5 yrs	+37.0%	+21.4%	●
 STAPLES		Oct 2016	Dec 2016	0.1 yrs	+34.4%		●
 Nestlé		Aug 2011	Dec 2016	5.4 yrs	+33.9%	+12.2%	●
 SGS		Jun 2015	Jul 2016	1.0 yrs	+33.6%	+35.5%	
 HEINEKEN		Sep 2013	Dec 2016	3.3 yrs	+28.4%	+12.5%	
JIMMY CHOO		Jun 2016	Oct 2016	0.3 yrs	+25.3%		
 starz		Feb 2016	Aug 2016	0.5 yrs	+23.5%		
DAIMLER		Jul 2016	Oct 2016	0.3 yrs	+20.6%		
San Juan Basin Royalty Trust		Dec 2015	Mar 2016	0.2 yrs	+16.9%		
KERING		Aug 2015	Aug 2016	0.9 yrs	+16.7%		
 P&G		Mar 2015	Feb 2016	0.9 yrs	+15.8%		
 P&G		Jun 2015	Aug 2016	1.2 yrs	+14.5%	+14.3%	●
 DUFY		Feb 2016	Oct 2016	0.7 yrs	+13.7%		
 Shell		Jan 2016	Feb 2016	0.1 yrs	+12.3%		
		Feb 2016	Feb 2016	0.0 yrs	+11.5%		
 HESS		Sep 2016	Dec 2016	0.3 yrs	+8.3%		
 PETROBRAS		Sep 2015	Jun 2016	0.8 yrs	+3.9%		
 ANGLO AMERICAN		Nov 2011	Apr 2016	4.5 yrs	+3.1%	+2.0%	
 HEINEKEN		Nov 2016	Dec 2016	0.1 yrs	+2.4%		
		Jan 2016	Aug 2016	0.6 yrs	+2.1%		
 CSL		Aug 2014	Jan 2016	1.4 yrs	+1.5%	+1.4%	
 Chesapeake		Mar 2012	Aug 2016	4.5 yrs	-37.9%		

* We define "Batting Average" as the number of realised investments in 2016 that were profitable vs. unprofitable.

**We define "Per Annum Return" as the Internal Rate of Return (IRR) for a given investment. This is the percentage rate earned on each dollar invested for each period it is invested. We have only published "Per Annum Returns" for holdings greater than one year in duration.

Past performance is not an indication of future returns.



INSIGHTS



 ELEVATION CAPITAL[®]

presents

“PRODUCTIVITY POVERTY”

22 August 2016

We have been described as “rock stars” by HSBC, and told by our politicians the record high migration rates and house prices in New Zealand are just problems of success. This may be true but the chart below highlights that we as a nation have been in denial about the most important factor that contributes toward long-term economic success - our productivity (or lack of it) - for most of the last two decades.

So what is productivity growth and why does it matter so much?

Productivity growth refers to the extra production we are able to extract from each hour worked. Without productivity there is no ground to increase wages. It is, or should be, the holy grail of economic performance. An economy can get by for a short while by increasing the number of workers or working more hours in the week, but ultimately there will be little wage growth after inflation without growing productivity. Productivity growth is therefore the best measure of our ability to increase wages and generate wealth, and also investment power and spending power over the long run.

To quote Howard Marks, Chairman of Oaktree Capital and one of the most successful investors behind Warren Buffett - *“Central bankers can’t create economic progress; they can only stimulate activity temporarily. GDP, or national output, can be seen roughly as the amount of labor employed times (multiplied by) productivity, or the*

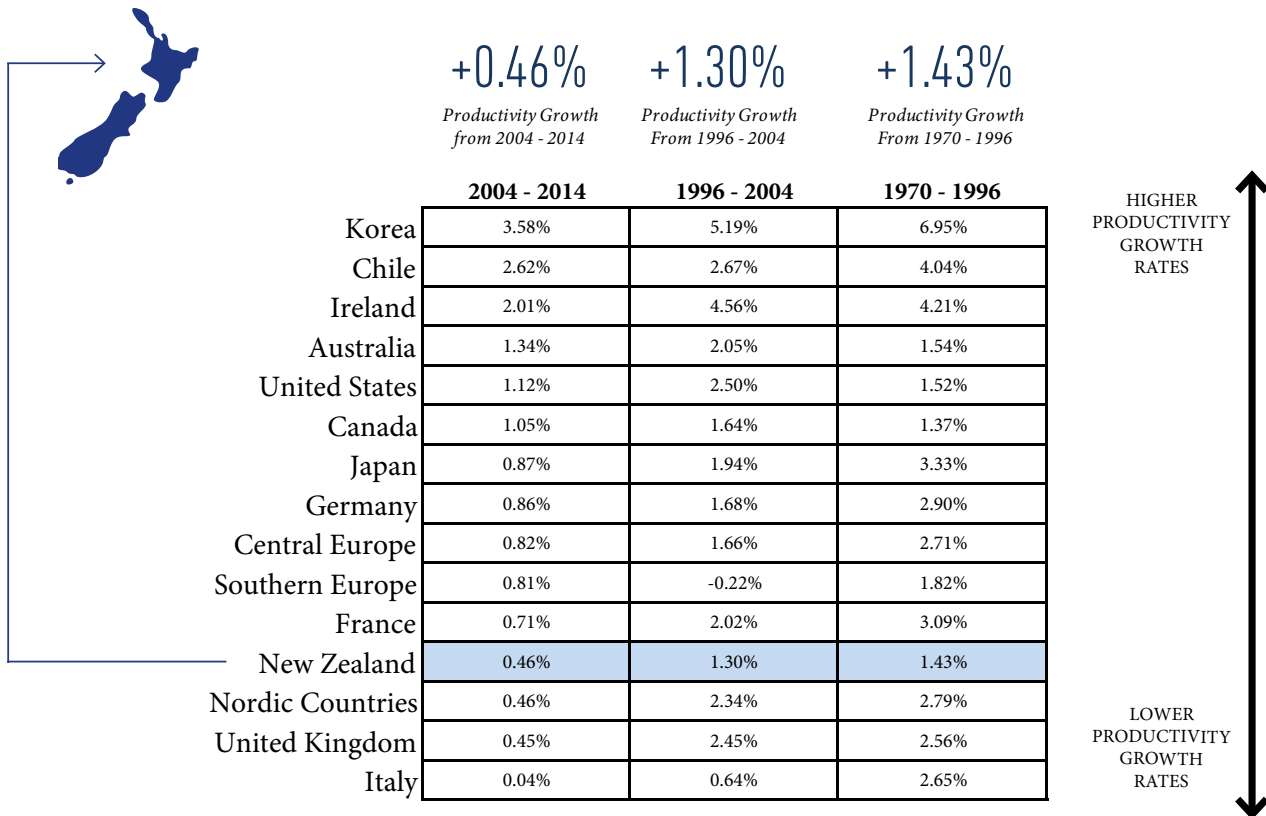
amount of output per unit of labor. In the long term, these things are independent of the amount of money in circulation or the rate of interest. The level of economic activity is determined by the nation’s productiveness.”

New Zealand’s productivity growth has been the third worst in the OECD in the last 20 years. We are underperforming a number of countries like France (with a 35 hour work week) and Japan (with a rapidly aging population).

New Zealand is now seeing the fruits of a long period of very low productivity growth. Wage growth has been much weaker than expected since 2011 and we are becoming increasingly reliant on migration and debt, rather than using our resources more efficiently.

The Productivity Commission (<http://www.productivity.govt.nz>) has found a variety of reasons why our performance has been so poor. It states that the countries with the fastest productivity growth for the longest periods tend to have highly competitive, internationally connected businesses and invest heavily in education, health and new technologies. Companies in these countries continually invest in systems and machines that increase the skill level and output of their workers -- essentially they worship high wages rather than low wages.

GROWTH IN PRODUCTIVITY SINCE 1970



Source: OECD Compendium of Productivity Indicators
<http://www.oecd.org/std/productivity-stats/oecd-compendium-of-productivity-indicators-22252126.htm>

New Zealand unfortunately has missed the mark under successive governments and we are in denial about addressing some basic truths around mis-allocation of resources:

i) our tax system incentivises investment in land and property rather than investment in productive businesses and job-creation;

ii) our relatively small domestic savings base has led to local property investment being fueled by heavy borrowing from foreign lenders; subsequently inflating our currency for at least a decade and stunting growth within our export sector. This has robbed a large chunk of our economy of the sort of competitive intensity and international connection that makes everyone richer. Instead of building globally minded companies which create and sell innovative products and services, we have been happy to employ more real estate agents and mortgage brokers; and

iii) our very high migration rate over the last 20 years (and currently the largest single immigration programme in the developed world) has further driven our currency and interest rates higher than is/was desirable for the export sector, while the relatively low skilled nature of much of the migration* has had little effect in raising worker skill levels or ultimately the productivity of the economy at large. We are mostly importing low skilled workers for jobs within aged care facilities, construction, and dairy farms, rather than software design and food technology. The Treasury is now concerned this strategy is dragging on wage growth. After all, why develop a new machine or management system that would allow higher wages for fewer staff when you can simply employ more people on the same old low wages?

New Zealand has to realise it has become dependent on a concoction of: financial leverage, tax-free capital gains, and migration-fueled - low-quality economic growth.

As Nobel Economist Paul Krugman wrote in 1994 - *“Productivity isn’t everything but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker”*.

We understand New Zealand is an economic bright spot in a global context, but that does not exclude us from some intellectual honesty. There are no short-term solutions to long-term issues like productivity, and voting cycles do not naturally lend themselves to the political class acting with our long-term interests (as a nation) at heart. To again quote Howard Marks - *“Remember, governments and regulators don’t create wealth, they only redistribute it. Their impact is largely a zero-sum game except in the longest-term sense... Intelligent changes in investment incentives, the tax system or infrastructure, for example – can increase the slope of the growth curve and provide substantial net long-term benefits for a society”*.

Notwithstanding, one sure fire way to address a long-term issue like productivity is to cease encouraging one form of investment versus others. E.g., investing for capital gains versus investing for dividends.

Any brave politicians/bureaucrats out there who can lead the change rather than just manage the status quo?

This article was co-authored by Christopher Swasbrook (chris.swasbrook@elevationcapital.co.nz) and Bernard Hickey (bernard@hivenews.co.nz).

* Top 20 Work Visa Jobs (Year to June 30 2016): 1. Tour guide 2. Chef 3. Dairy-cattle farmer 4. Retail Manager (general) 5. Cafe/restaurant manager 6. Carpenter 7. Retail Supervisor 8. Student 9. Aged or disabled care 10. Deck hand 11. Dairy cattle farm worker 12. Software engineer** 13. University lecturer** 14. Cook 15. Registered nurse (aged care) 16. ICT support technicians** 17. Developer/programmer** 18. Entertainment or variety artist 19. Office manager 20. Waiter

**Higher-skilled category Source: New Zealand Herald - Too many visas, not enough pay by Bernard Hickey - 21/08/2016





RESEARCH

ELEVATION CAPITAL MANAGEMENT LIMITED DISCOVERY COMMUNICATIONS INC [DISCA:US]

Research Presentation released in December 2016



SUMMARY:

#1 PAY-TV PROGRAMMER IN THE WORLD

Discovery Communications (DISCA.US, Market Capitalisation US\$17.4bln) is the world's #1 Pay-TV programmer reaching 3bln cumulative subscribers in more than 220 countries and territories with popular brands/channels such as Discovery, TLC, Animal Planet and Eurosport. Discovery has experienced 30 years of strong growth with a superior business model; creating and distributing its own content that is evergreen, cost effective to produce, and has global appeal and local relevance.

Discovery is ranked as the top channel people would like in their U.S. T.V package (61.3%).

BUSINESS OVERVIEW

In 2015, Discovery generated revenues of US\$6.4bln and net income of US\$1bln. The Company operates through 3 distinct business segments - US Networks with 49% of revenue, International Networks with 45% of revenue and Education which makes up the remaining 3%. Significant growth has been driven by the international networks in recent years representing over 50% of total revenues in 2014, (despite falling back to 48% of revenues in 2015 due to f/x headwinds). We continue to see attractive growth opportunities in international markets which remain under-penetrated and under-priced.

OPERATIONAL PERFORMANCE – BALANCE SHEET

Discovery has an impressive, free cash flow generative business model that generated over US\$1bln of free cash flow in each of the past five years. The Company has experienced strong growth in Total Assets in recent years (except 2015), mainly due to increase in intangible assets/goodwill. Discovery's balance sheet has been leveraged up in recent years (approximately US\$10bln) with a Net Debt/EV of 39%, however if we look at earnings/cash flow-based ratios such as Net Debt / EBITDA, Discovery is actually less levered than a number of its peers at 180%.

AGGRESSIVE CAPITAL RETURN VIA SHARE BUYBACKS

Discovery does not currently pay a dividend and Management has expressed no intention to do so in the near term. Instead focus has been toward share buybacks as the sole means to return capital and create value for shareholders. The Company has authorised US\$7.5bln in share buybacks since 2010 when the repurchase program was initially implemented and has purchased 30%+ of the outstanding float, including preferred stock. There remains US\$1.8bln (as at 1Q2016) authorised for future repurchases (which will expire on 8 October, 2017). The Company is capable of repurchasing more than US\$1bln of shares annually based on its strong free cash flow generation.

CONTROLLING SHAREHOLDER - DR. JOHN MALONE

John Malone is one of the best business owners/operators/investors of our time with some suggesting he may be better than Warren Buffet himself. Malone owns most of Discovery's Supervoting B Shares holding 3.3% economic ownership and 21% of the Company's

voting rights. He is well known for his effective financial engineering and operational optimisation with a focus toward wealth creation, levered cash flow growth, tax efficiencies and exploitation of both horizontal and vertical synergies.

David Faber: *"Yeah, but you aren't going to exit Discovery to allow Charter to buy Time Warner Cable."*

John Malone: *"No, but I could exit Charter. I mean, why I would exit Discovery when that is a double bank shot, if you want to call it that"*
- As interviewed on CNBC – 12 November 2015

"BEST IN CLASS" MANAGEMENT

	2008	2015	
Cumulative Subscribers	1.5bln	3.0bln	+100%
Countries	170	223	+31%
# Networks	100	200	+100%
Revenue	US\$3.44bln	US\$6.39bln	+86%
Adjusted OIBDA*	US\$1.31bln	US\$2.40bln	+83%
International Revenue	34%	48%	+14%

In 2014, the Company extended its employment contract with President and CEO David Zaslav to 31 December, 2019. Under his tenure, Discovery has experienced extraordinary growth which we highlight in the adjacent table. Zaslav is highly incentivised to create long-term value for shareholders with his contract renewal providing for 98% of his total direct compensation package to be linked to performance, aligning his personal interests to those of the shareholders. Zaslav is but one example within a management team which we believe will continue to drive excellence through every part of the business.

**Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market equity-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) restructuring and other charges, (v) certain impairment charges, (vi) gains and losses on business and asset dispositions, and (vii) certain inter-segment eliminations related to production studios.*

OPPORTUNITY TO INCREASE U.S. FEES

Discovery's audience share in the US is at 12% yet its share of revenue is just 3%. Management has stated that they believe there is margin expansion potential for the US market over time. The recent increases in distribution/carriage fees instituted with Comcast (July 2015) is evidence of the pricing power that Discovery's suite of channels can command despite widespread uncertainty and bearishness in the sector. Fee increases are expected to drive high single digit growth in US revenues in the medium term.

ANCILLARY RIGHTS MONETISATION - TV EVERYWHERE & OVER-THE-TOP (OTT) PLATFORMS

Discovery (in our opinion) has been slow to monetise ancillary content rights. It began this process with Time Warner Cable in 2013 and Comcast in 2015. These agreements provide TV Everywhere

access to Discovery content (that is, anywhere/anytime access to current Discovery subscribers). On 1 December 2015, Discovery launched its own streaming app “Discovery Go” to provide a new way to deliver digital content to pay-TV cable subscribers. In addition to TV everywhere rights with existing distributors, we expect Discovery to more freely monetise its content via OTT platforms to provide a third revenue stream to its current dual revenue (distribution fees and advertising) model.

We believe the popularity of OTT services such as Netflix, Hulu and Amazon Video will create opportunities for content providers like Discovery to be on such platforms. In addition, the Company could garner revenues from providing content directly to consumers through the internet (e.g., Eurosport Player) or via a platform such as Apple TV and Amazon Video. This would create an additional monetisation mechanism for the Company’s deep library of content.

** Over-The-Top (OTT) is the delivery of media content via internet, without requiring users to have a cable subscription.*

GROWTH IN SPORTS REVENUE IN EUROPE

In 2015, Discovery took full control of Eurosport, acquiring the remaining 49% stake from its previous controlling stake acquired in 2014. Eurosport is expected to provide long-term growth opportunities from existing and future paying subscribers. Discovery intends to invest in additional sports programming to make it the No. 1 sports channel in the European continent. This will help the Company to maximise its reach to Europe’s 700 million residents across all platforms.

Sports represents a unique category. As time-shifting viewership continues to rise for traditional programming and consumers shift toward on-demand content the value of paid advertising decreases. However, 99% of sports events are viewed live, in comparison to just 53% of regular TV content, driving value for advertisers and increasing potential advertiser revenues. We believe sports taps into a global and extremely loyal fan base which allows compound growth through high audience retention.

CONTINUED EXPANSION OVERSEAS

Discovery has terrific opportunities to grow organically through increased penetration and reach. This is possible due to the ubiquitous nature of the content that Discovery produces which has the ability to transcend boundaries/nationalities. The strong growth in audience share achieved in countries like Brazil and India is evidence of that and we see tremendous growth in emerging markets given their significant population bases. As noted, international markets still look like the U.S. in the 1990’s – underpenetrated and under-priced.

INDISCRIMINATE SELLING IN MEDIA STOCKS PRESENTS INVESTMENT OPPORTUNITY

For the last two years, fears among U.S. media investors concerning growing number of “cord-cutters”, “cord-shavers” and OTT services

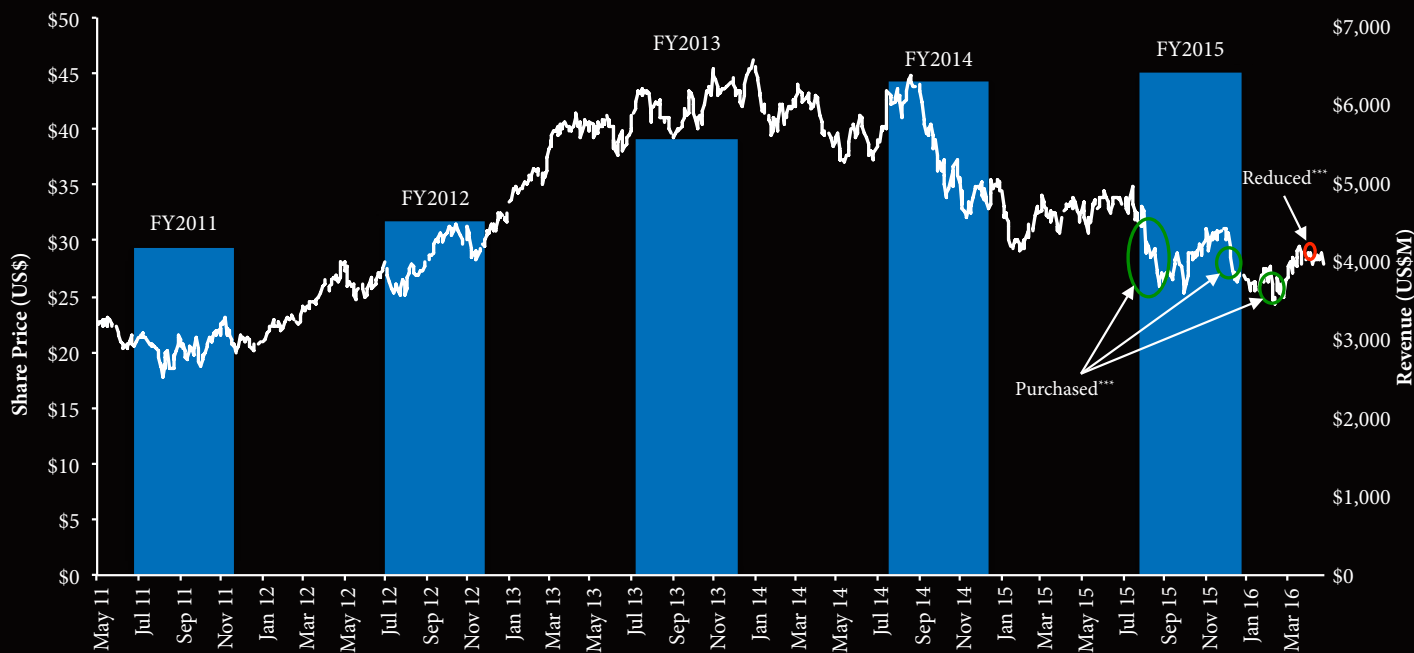
have pressured the listed U.S. media sector, and compressed U.S. media sector multiples significantly. This saw Discovery’s share price decline 35.78% from US\$44.83 (20 August, 2014) to US\$28.79 (05 August, 2015), at which point we began acquiring a position. We see value in Discovery’s premium content which is geographic/platform agnostic and should continue to thrive with the next generation of media distribution/consumption models. As at 25 April 2016, the Elevation Capital Value Fund had acquired a position in Discovery an average cost of US\$28.26 per share.

INVESTMENT THESIS - SUMMARY

Discovery is very well positioned – the Company has world class brands, and international appeal with approximately half of its revenues generated outside U.S., particularly in markets where pay-TV subscribers are still growing in aggregate numbers. In the long run, we believe that Discovery should command a premium to its slower growing peers due to its economic moat, which is provided through the Company’s economies of scale, highly valuable brands, robust business model and high quality management. Excluding currency fluctuations Discovery is expected to achieve high single digit growth in revenues, EBITDA and earnings per share in the medium term as both its US and international networks are forecast to grow strongly. We currently value Discovery at US\$34.62- US\$49.33 per share representing potential upside +22.51% to +74.56% on our cost basis detailed above.

DISCOVERY COMMUNICATIONS INC: INDISCRIMINATE SELLING PRESENTS OPPORTUNITY... (1)

- For the last two years, fears among U.S. media investors concerning the growing number of “cord-cutters”, “cord-shavers” and Over-The-Top (OTT) services have pressured the listed U.S. media sector.
- Discovery is well positioned, with worldwide brands, and approximately 50% of its revenues generated outside the U.S., particularly in those markets where pay-TV subscribers are still growing in aggregate numbers.
- Current share price* = US\$ 27.93 (Market Capitalisation = US\$ 17.4B*)
- Elevation Capital Value Fund Average Cost = US\$ 28.26**



* We assume all Series A and Series C Preferred Shares are fully converted (Refer page 43)

** As at 25 April 2016

*** Elevation Capital Value Fund Historical Trades

DISCOVERY COMMUNICATIONS INC: INDISCRIMINATE SELLING PRESENTS OPPORTUNITY... (2)

Cord Cutting and Cord Shaving
is real... but...

“For heavy consumers of content and sports fans, cord cutting and cord shaving doesn’t save as much as one might expect.”

Accenture “Pulse Of Media”
2015 Report

“We haven’t seen any tipping point.”
Time Warner Chairman/CEO
Jeff Bewkes discussing cord cutting
and cord shaving, December 2015

THE WALL STREET JOURNAL Cord-cutting weighs on pay TV

Published: Aug 5, 2015 11:56 a.m. ET

Stocks of media firms with cable channels are hammered on subscriber losses



THE WALL STREET JOURNAL

Home World U.S. Politics Economy Business Tech Markets Opinion Arts Life Real Estate

Cord-Cutting Is Accelerating

By 2018, 21% of U.S. households won't pay for traditional TV, eMarketer says



Eyeballs are moving to digital, especially mobile

U.S. Consumer Media Consumption Share

BI INTELLIGENCE

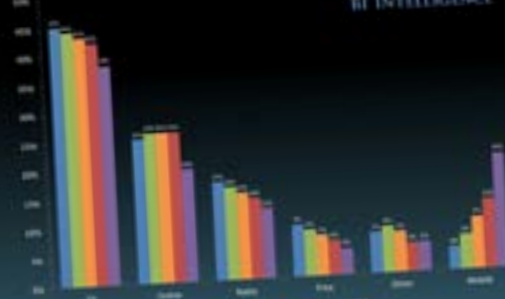
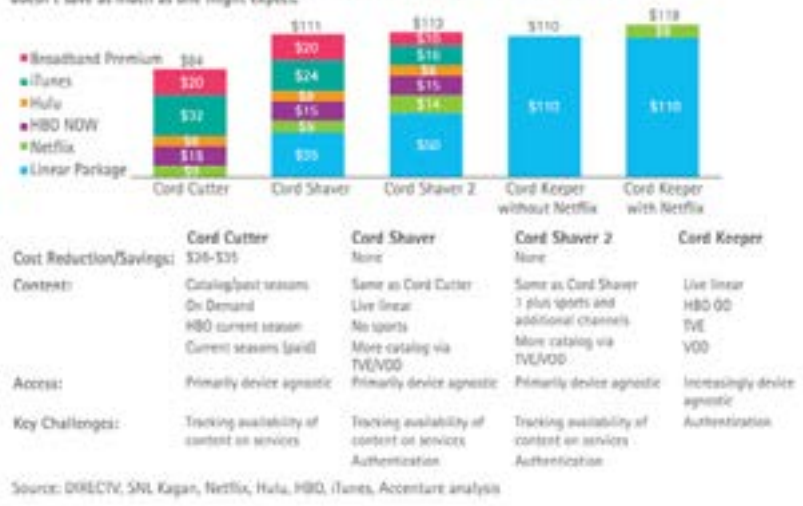


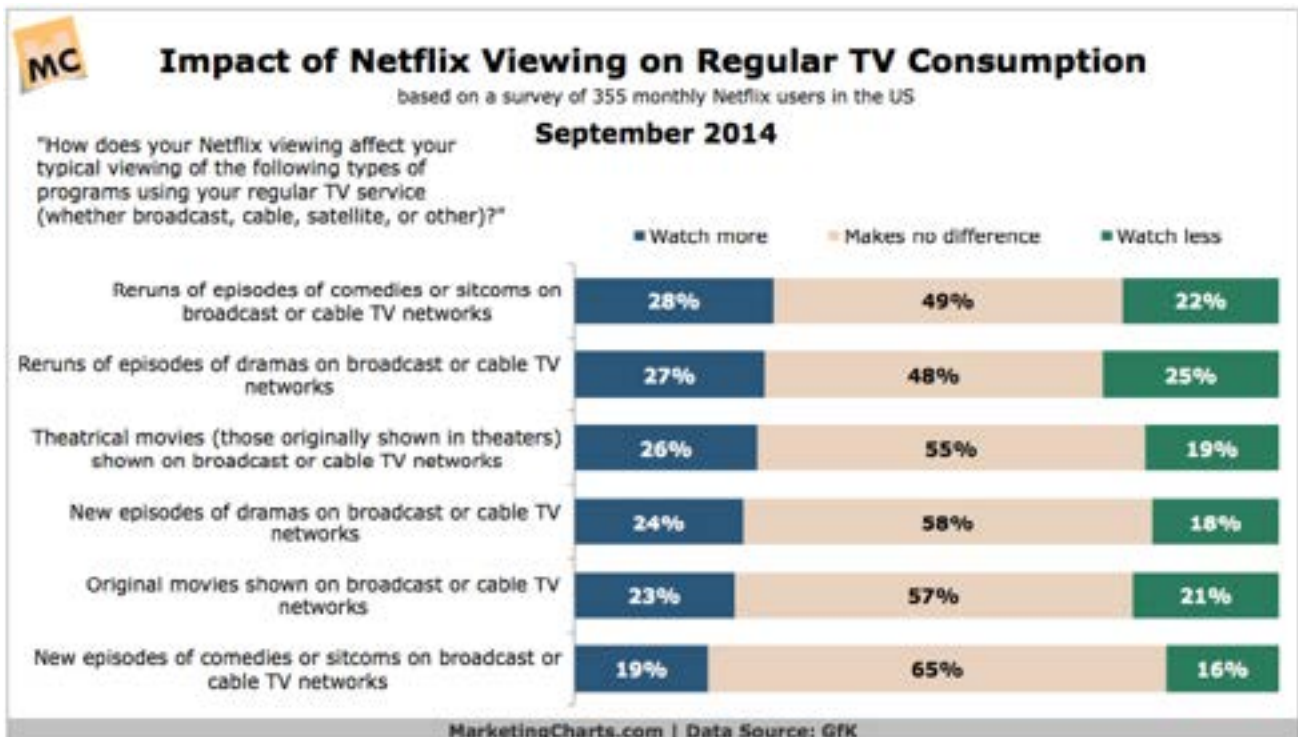
Figure 11: For heavy consumers of content and sports fans, cord cutting and cord shaving doesn't save as much as one might expect.



DISCOVERY COMMUNICATIONS INC: INDISCRIMINATE SELLING PRESENTS OPPORTUNITY... (3)

Over-The-Top* (“OTT”) Services – Friend or Foe?***

- “Recent studies (refer table below) seem to indicate that OTT services actually drive increased consumption of linear TV.”
- “OTT services are largely an incremental offering rather than an entire replacement of pay-TV services.”
- “Discovery owns virtually all of its content and in the long run should be increasingly platform agnostic in terms of distribution.”



* Over-The-Top (OTT) is the delivery of media content via internet, without requiring users to have a cable subscription.

*** Source: Boyar Research – January 2015





DISCOVERY COMMUNICATIONS INC: #1 PAY-TV PROGRAMMER IN THE WORLD

- Discovery Communications (“Discovery”) is the world’s #1 Pay-TV programmer reaching 3 billion cumulative subscribers in more than 220 countries and territories.

3

Billion cumulative
worldwide subscribers

506

Million
Discovery Channel
subscribers

186

International HD
markets in 45
languages

10

Average number of
channels in 220 countries
and territories

DISCOVERY COMMUNICATIONS INC: STOCK REVIEW*



LISTED ON NASDAQ

THREE SERIES OF COMMON STOCK:

1

DISCA

(Voting)

2

DISCB

(Supervoting)

3

DISCK

(Non-Voting)

US\$ 27.93

Stock Price (DISCA)

US\$ 17.4B

Market Capitalisation**

US\$ 25.0B

Enterprise Value**

**US\$ 34.94 /
US\$23.74**

52 Week High/Low (DISCA)

* As at 25 April 2016

** We assume all Series A and Series C Preferred Shares are fully converted



DISCOVERY COMMUNICATIONS INC:

KEY STATS – FY2015*

US\$ 6.4B

Revenue
(US\$ 3.4B in 2008)

US\$ 1.0B

Net Income
(US\$ 317M in 2008)

17.7x

P/E**
Price : Earnings

2.1x

P/B
Price : Book

14.8x

P/FCF**
Price : Free Cash Flow

10.8x

EV/EBITDA**

+18.7%

ROE
Return on Equity

+7.8%

ROA
Return on Assets

+9.3%


ROIC
Return on Invested Capital

* As at 25 April 2016, based on FY2015 Financials and Thomson Reuters Eikon

** We assume all Series A and Series C Preferred Shares are fully converted in our MarketCap, P/E, P/FCF and EV/EBITDA calculations

DISCOVERY COMMUNICATIONS INC:

30 YEARS OF COMPOUND GROWTH...

- 
- 1985 John Hendricks founds Discovery Communications – On 17 June 1985, John Hendricks’ vision became a reality as Discovery Channel debuted to 156,000 subscribers across the United States.
 - 1989 Discovery Channel launches in the UK and Scandinavia.
 - 1991 Discovery acquires The Learning Channel.
 - 1995 Discovery goes digital with the launch of Discovery.com
 - 1996 Animal Planet debuts as Discovery’s third flagship network. Discovery also launches four new digital networks: Discovery Science, Discovery Home & Leisure, Discovery Kids and Discovery Health.
 - 1997 *The Crocodile Hunter* Steve Irwin premieres on Animal Planet. Animal Planet also expands with first international launch across central and eastern Europe and the Nordic region.
 - 1998 Discovery en Espanol launches to Spanish audiences in the U.S., Discovery also debuts online with Discovery News.
 - 2000 Discovery unveils hit program “Walking with Dinosaurs” earning eight household ratings and nabbing six primetime Emmy nominations.
 - 2001 Discovery becomes the world’s most widely distributed television brand.
 - 2004 The Company reaches the 1 billion subscriber milestone across its networks.
 - 2007 David Zaslav becomes President and CEO of Discovery Communications.
 - 2008 Channel Investigation Discovery debuts and the Company also lists on Nasdaq.

DISCOVERY COMMUNICATIONS INC: 30 YEARS OF COMPOUND GROWTH CONTINUED

2010

Discovery Education launches its first digital textbook.

2011

Discovery teams up with Oprah Winfrey Networks to unveil the OWN network channel.

2013

Discovery acquires SBS Nordic adding twelve channels to the suite of eight channels in Scandinavia.

2014

Dplay – a new direct-to-consumer content streaming product was launched in the Nordics. The Company acquires controlling interest in Eurosport. Discovery's International revenue surpasses U.S. revenue for the first time.

2015

Discovery agrees to acquire the remaining 49% stake in Eurosport from TF1 Group for €491M.

Discovery/Eurosport win Olympics broadcast rights in Europe for the period 2018-2024 - Cost €1.3B.

Discovery and Liberty Global each acquire 3.4% stake in Lionsgate for US\$195M each, and the partners enter into commercial agreements.

DISCOVERY COMMUNICATIONS INC:

BUSINESS SEGMENTS

Discovery Communications has three business segments:



US NETWORKS

(49% of 2015 Revenue*)



INTERNATIONAL NETWORKS

(48% of 2015 Revenue*)



EDUCATION & OTHER

(3% of 2015 Revenue*)

DISCOVERY COMMUNICATIONS INC: BUSINESS SEGMENTS CONTINUED



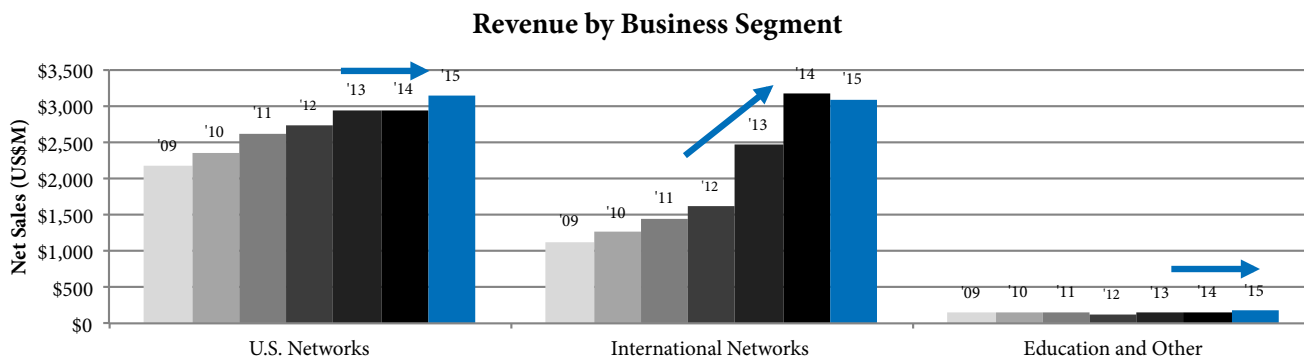
US
NETWORKS

VS.



INTERNATIONAL
NETWORKS

- Revenue from the international networks has declined in 2015 mainly due to US\$ appreciation and the resultant impact on fx translation.
- Significant growth has been driven by the international networks in recent years.
- 2014 was the first year that international revenue surpassed U.S. revenue.
- Foreign exchange is now an important factor in determining revenue & profits.



DISCOVERY COMMUNICATIONS INC: BUSINESS SEGMENTS - US NETWORKS

Stable and growing business historically.

DISCOVERY'S TOP 10 U.S. CHANNELS ARE:

1



The world's most widely distributed pay-tv network.

94M U.S. subscribers*

2



TLC (formerly The Learning Channel) is the world's #1 pay-tv brand for women.

92M U.S. subscribers*

3



The world's only entertainment brand that immerses viewers in the full range of life in the animal kingdom.

91M U.S. subscribers*

4



Investigation Discovery is the world's leading mystery and suspense network on TV. It is one of the fastest growing networks in the world.

86M U.S. subscribers*

5



Oprah Winfrey Network - The first and only network named for, and inspired by, a single iconic leader.

79M U.S. subscribers*

6



Science Channel encourages viewers to question everything. Explore science news, behind-the-scenes and original videos.

72M U.S. subscribers*

7



Velocity is an upscale men's cable network that focuses on thrilling automotive content for its viewers.

68M U.S. subscribers*

8



Discovery Family Channel debuted in 2014, is a family-friendly network with a mix of original and acquired children's programs, along with family-oriented science and nature-themed programs.

66M U.S. subscribers*

9



AHC tells timeless stories of heroes facing challenging villains and situations.

57M U.S. subscribers*

10

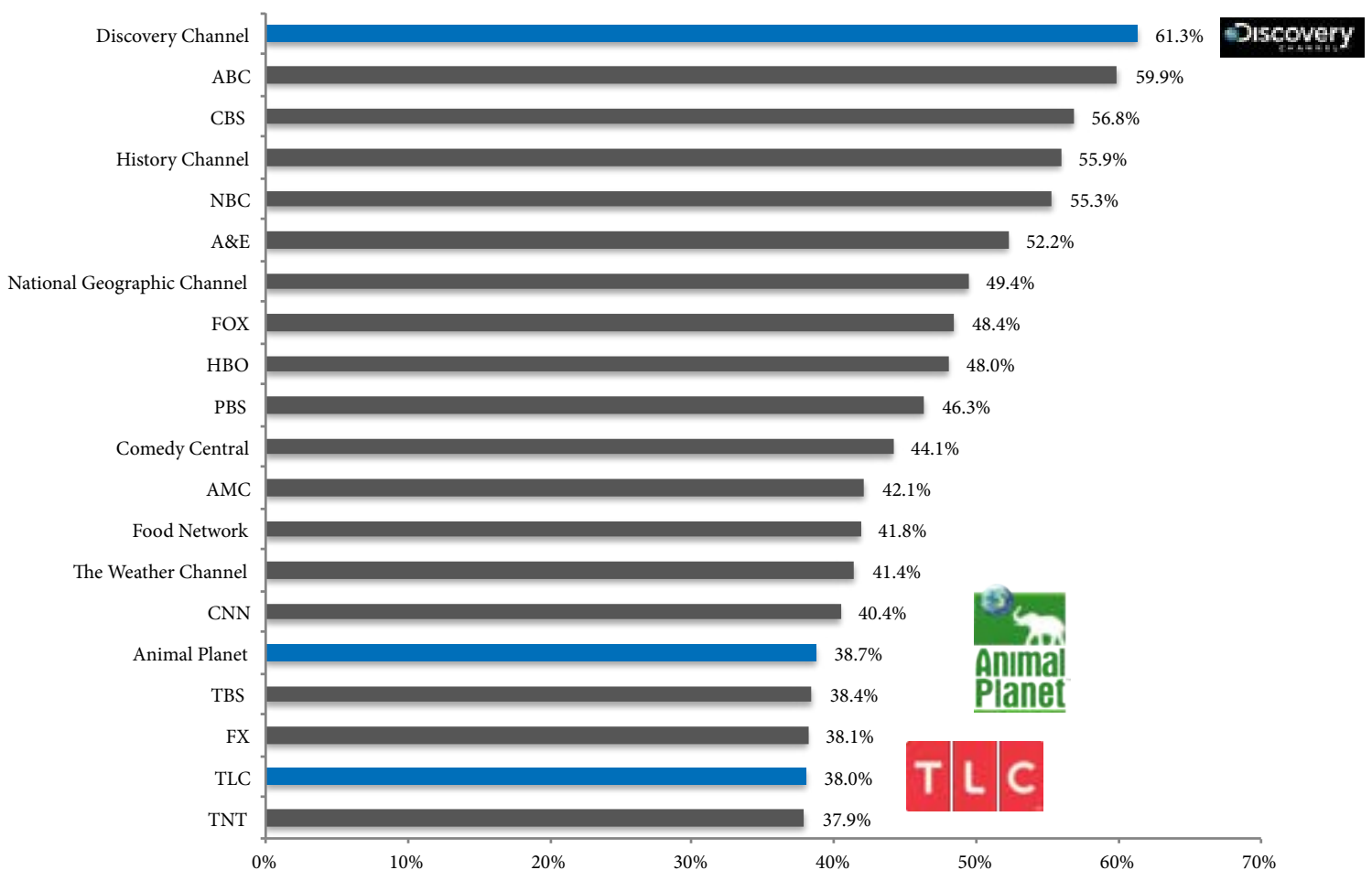


The only network celebrating the people, places and stories of the U.S.

56M U.S. subscribers*

DISCOVERY COMMUNICATIONS INC: TOP CHANNELS PEOPLE WOULD LIKE IN THEIR U.S. TV PACKAGE

Top 20 Channels People Like To Be Included In Their TV Package



DISCOVERY COMMUNICATIONS INC: BUSINESS SEGMENTS - INTERNATIONAL MARKETS

DISCOVERY'S TOP 10 INTERNATIONAL CHANNELS ARE:

1



The world's most widely distributed pay-tv network.

**42M
International
subscribers***

2



TLC (formerly The Learning Channel) is the world's #1 pay-tv brand for women.

**332M
International
subscribers***

3



The world's only entertainment brand that immerses viewers in the full range of life in the animal kingdom.

**306M
International
subscribers***

4



Eurosport is the #1 pan-European sports media brand that provides viewers with European and international sporting events.

**160M
International
subscribers***

5



Investigation Discovery is the world's leading mystery and suspense network on TV. It is one of the fastest growing networks in the world.

**118M
International
subscribers***

6



Discovery Kids lets children explore their awesome world and ignites their natural curiosity by providing content that is fun and educational.

**102M
International
subscribers***

7



Switchover Media is an Italian broadcaster that owns channels such as .GXT, K2, Freisbee, Giallo and Focus.

**101M
International
subscribers***

8



Discovery Science Channel encourages viewers to question everything. Explore science news, behind-the-scenes and original videos.

**97M
International
subscribers***

9



DMAX is a men's lifestyle channel that is widely available throughout Europe. It is the only free-to-air mainstream channel with a focus on non-fiction entertainment, unique in German media.

**85M International
subscribers***

10



Quest is a television channel in the United Kingdom. Quest provides factual, lifestyle, entertainment programmes and other imported material.

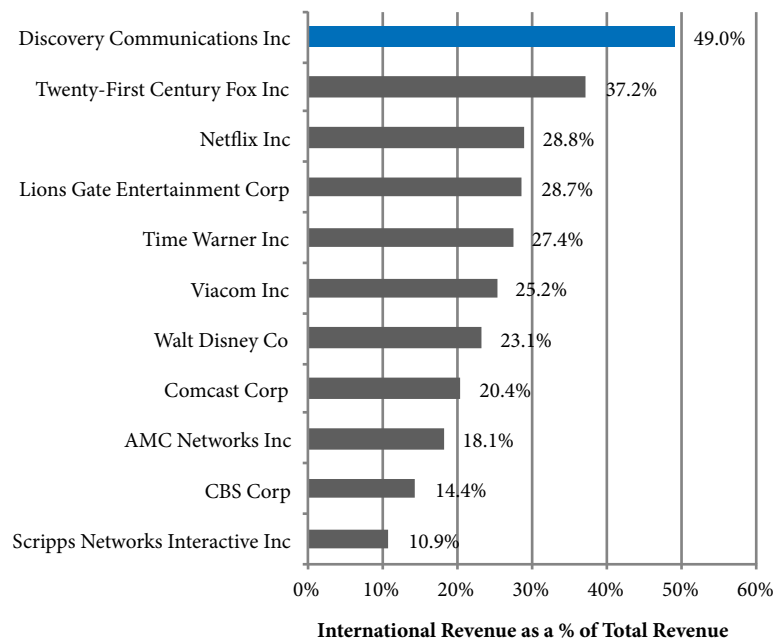
**81M
International
subscribers***

DISCOVERY COMMUNICATIONS INC: BUSINESS SEGMENTS - INTERNATIONAL MARKETS

Strong Growth Outlook In International Networks:

- International markets still look like the U.S. in the 1990's – underpenetrated and underpriced.
- Discovery is accordingly well positioned to benefit from its significant international market exposure versus its peers.

International Market Exposure - Discovery vs Peer Group



DISCOVERY COMMUNICATIONS INC: BUSINESS SEGMENTS - DISCOVERY EDUCATION

With unparalleled access to the world's premiere educational media, Discovery Education delivers high-quality, engaging content that transforms classrooms, empowers educators and captivates students.

50%

of U.S. K-12 schools are
Discovery Education's
clients*

50%

of U.K. primary schools
are Discovery Education's
clients*

30M

The number of students
reached by Discovery
Education's leading
broadband content*

3M

The number of educators
reached by Discovery
Education's leading
broadband content*

 | STREAMING PLUS

 | COMMUNITY

 | PROFESSIONAL DEVELOPMENT

 | TECHBOOK.



DISCOVERY COMMUNICATIONS INC: ROBUST BUSINESS MODEL WITH FUTURE GROWTH POTENTIAL

DISCOVERY CONTINUES TO BUILD UP ITS LARGE CONTENT LIBRARY WITH PROGRAMMING THAT IS EVERGREEN, COST EFFECTIVE TO PRODUCE*, HAS GLOBAL APPEAL AND LOCAL RELEVANCE.



DISCOVERY EFFICIENTLY DISTRIBUTE CONTENT INTERNATIONALLY TO ITS 3B CUMULATIVE SUBSCRIBERS WORLDWIDE ACROSS 220 COUNTRIES AND TERRITORIES.

“It’s rare to find a content model that’s inherently inexpensive at the same time that it’s globally appealing and interesting to human beings...”

DISCOVERY COMMUNICATIONS INC: TOP-10 GLOBAL SHOWS REACHED 2.2 BILLION VIEWERS

- The Company reaches three billion cumulative subscribers in more than 220 countries and territories*.
- Discovery's Top-10 global shows reached 2.2 billion viewers worldwide in 2014**.



1

U.S. Reach:
88M Viewers

Intl Reach:
191M Viewers

Global Reach:
279M Viewers



2

U.S. Reach:
97M Viewers

Intl Reach:
153M Viewers

Global Reach:
250M Viewers



3

U.S. Reach:
63M Viewers

Intl Reach:
177M Viewers

Global Reach:
240M Viewers

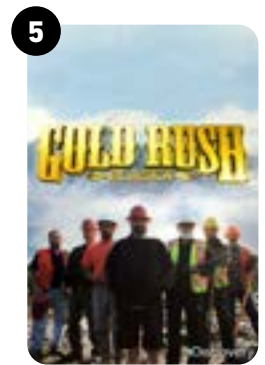


4

U.S. Reach:
114M Viewers

Intl Reach:
118M Viewers

Global Reach:
231M Viewers



5

U.S. Reach:
69M Viewers

Intl Reach:
157M Viewers

Global Reach:
225M Viewers



6

U.S. Reach:
80M Viewers

Intl Reach:
139M Viewers

Global Reach:
218M Viewers



7

U.S. Reach:
99M Viewers

Intl Reach:
101M Viewers

Global Reach:
200M Viewers



8

U.S. Reach:
27M Viewers

Intl Reach:
165M Viewers

Global Reach:
192M Viewers



9

U.S. Reach:
79M Viewers

Intl Reach:
107M Viewers

Global Reach:
186M Viewers



10

U.S. Reach:
53M Viewers

Intl Reach:
128M Viewers

Global Reach:
182M Viewers

* Discovery Communications Q1 2016 Globe Quarterly Newsletter as reported 5 May 2016

** Discovery Communications 2014 Annual Report

DISCOVERY COMMUNICATIONS INC: DIVERSIFIED DEMOGRAPHIC VIEWERSHIP

“The first thing (Spielberg) told me was that his kids’ TVs are set to our channels. Our channels are interesting and safe. Then he went on to talk about how he spent the whole weekend watching (old episodes of) Deadliest Catch to get ready for (this season’s) premiere episode. When you think about Discovery, it opens any door.”

*- CEO David Zaslav on talking to Steven Spielberg
to make high-profile shows about science**



DISCOVERY COMMUNICATIONS INC: NARROWCASTING TO A FRAGMENTING GLOBAL AUDIENCE

The Rise of Discovery 41

Discovery and National Geographic Channel are the world's main factual television narrowcasters, and major providers of factual media content. Their approach is to address a transnational but targeted audience, reflecting the way in which, through transnational communication, people are 'increasingly being addressed across national boundaries on the basis of their purchasing power' (Thussu, 2000: 79). Similarly, the former Managing Director of BBC Worldwide, Dick Emery, points out that Discovery has 'struck a chord, with a valuable demographic' globally (Emery, Former Managing Director, BBC Worldwide, interview with author, London, 16 May 2003). In Europe, 46 per cent of Discovery's viewers had a high medium income, 23 per cent had a medium income, and only 20 per cent in the category of low income (Discovery Mediapack, 2003d). The total audience in Europe is mixed with only a small skew towards the male audience: 52 per cent male and 48 per cent female (Discovery Mediapack, 2003c). In Latin America, it is the elite that subscribes to MTV, HBO, CNN, Disney, and Discovery, as 'the mass audience not only tolerate, but rather enjoy seeing locally made programming (much of it not at all exportable), material which is nationally produced and distributed' (Sinclair, 2005: 212). This is supported by market research company Synovate, who reports that Discovery Channel is the most-watched television channel by 'affluent adults' in Brazil (23.5 per cent) and Mexico (18.4 per cent), and is the second most watched television channel by this group in Argentina (Marketing Charts, 2007). The Latin American television audience is stratified, and 'partly for this reason, the different levels are not mutually exclusive—that is, the build-up of global channels in Latin America does not drive out local, national, and regional programming, any more than the rise of regional programming could ever have hoped to replace the global' (Sinclair, 2005: 212). As in Latin America, Discovery is targeting the wealthiest audience segment in South East Asia. A marketing research survey conducted in Discovery's 'key markets' Bangkok, Hong Kong, India, Jakarta, Kuala Lumpur, Manila, Seoul, Singapore, Sydney, Taipei, and Tokyo claims that Discovery Channel is the most watched regional channel among: 'Business Decision Makers (BDMs), Professional, Manager, Executive, Business Men (PMEBs) and high net worth individuals. The channel also reaches 30% of top management viewers on a weekly basis' (Indiantelevision, 2006).

The consequences of narrowcasting have been especially visible within children's television in many parts of the world. Discovery is also active in this audience segment through its Discovery Kids television channel. The American terrestrial channels had 98 per cent share of the children television audience in the 1980s. This share has been drastically reduced. In 2006, the American terrestrial channels had around 15 per cent of this audience, and the cable channels drew 77 per cent of the youngest audience (Alexander and Owers, 2007: 59). Also in Europe, the themed cable and satellite television channels Cartoon Network, Nickelodeon, and Disney's television channels Disney Channel, Playhouse Disney, Toon Disney, and Jetix (76 per

DISCOVERY IS ONE OF THE WORLD'S PREMIER FACTUAL TV NARROWCASTERS. ITS PORTFOLIO OF CHANNELS SERVES AS A VEHICLE FOR ADVERTISERS WHO WISH TO TARGET DIFFERENT DEMOGRAPHICS.

NARROWCASTING IS THE ABILITY TO TARGET AND REACH A DESIRED AUDIENCE.

"DON'T COUNT THE PEOPLE YOU TALK TO, TALK TO THE PEOPLE WHO COUNT."

DISCOVERY COMMUNICATIONS INC: EUROSPORT – NEW GROWTH ASSET

“Taking full control of Eurosport is the culmination of our commitment to strengthening Eurosport as a premier sports brand and fully integrating this business within Discovery’s unmatched global portfolio.”


- Discovery Communications CEO, David Zaslav

236M

Cumulative Subscribers

93

Countries in Europe, Asia-Pacific,
Africa and the Middle East.

- 
- 2012** Discovery takes a 20% minority stake in Eurosport for €170 million.
 - 2014** Discovery increases its stake to a 51% controlling stake in Eurosport.
 - 2015** Discovery agrees to acquire remaining 49% stake in Eurosport from French broadcaster TF1 for €491 million.
Discovery wins the pan-European TV and multiplatform broadcast rights for 2018-2024 Olympic Games for €1.3 billion.

 **EUROSPORT**

DISCOVERY COMMUNICATIONS INC: EUROSPORT – TO BE THE ESPN OF EUROPE (1)

Why get into sports now?

DISCOVERY CHANNELS

12%

of U.S. cable TV viewing

3%

of affiliate fee revenue

SPORTS CHANNELS

10%

of U.S. cable TV viewing

38%

of affiliate fee revenue

Why Eurosport?

- Discovery was simply too late to participate in sports in the U.S. market.
- Discovery has the distribution power and capital to support Eurosport to evolve into a major European Regional Sports Network (RSN).
- Distribution into 135M homes at present, with an addressable market of ~216M homes**.

“I don’t think the market appreciates this (regional sports network) strategy for Europe.” Discovery CEO David Zaslav - 2014

EUROSPORT

* Summary of WSJ's 12 January 2016 article "Discovery Communications Wants to Be the ESPN of Europe"

** Source: Eurostat

DISCOVERY COMMUNICATIONS INC: EUROSPORT – TO BE THE ESPN OF EUROPE (2)

STRATEGY*

- Target cheaper regional popular sports
- Package Eurosport channels with Discovery's other channels in Europe
- Regionalised advertising business
- Add storytelling and talk shows to better engage sports fans

RISKS

- Lack of tier-one premier sports rights (ex-Olympics)
- Potential expensive rights acquisitions (e.g., Olympics)
- Changing business/market dynamics and viewer behavior (e.g., Cord-cutting, Cord-shaving)

We suggest time-shifting viewership continues to rise for traditional programming as consumers shift toward on-demand content. This decreases the value of paid advertising. However 99% of sports events are viewed live, in comparison to just 53% of regular TV content, driving value for advertiser and increasing potential advertiser revenues.

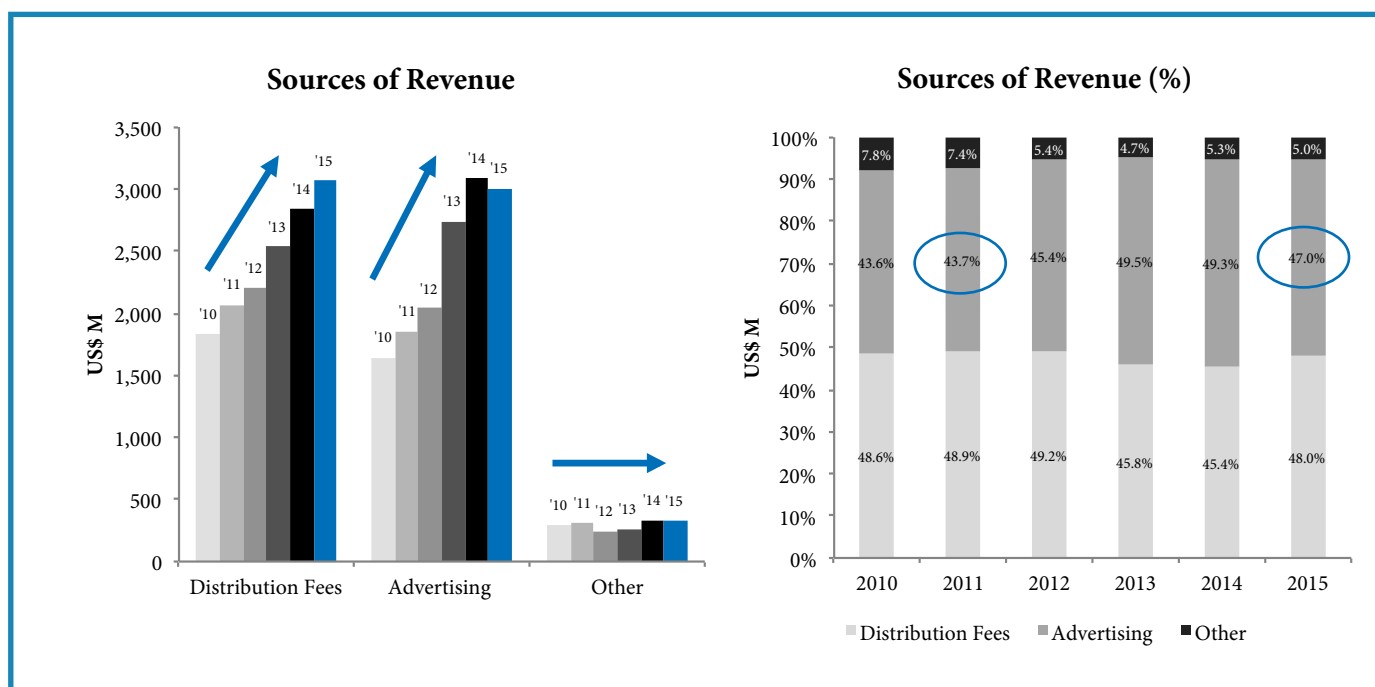
We believe Sports taps into a global and extremely loyal fan base which allows compound growth through high audience retention.



DISCOVERY COMMUNICATIONS INC: MAIN SOURCES OF REVENUE – DISTRIBUTION & ADVERTISING

43.7% → 47%

We suggest one of the key reasons for the increased revenue from advertising from 43.7% in 2011 to 47.0% in 2015 is Discovery's increasing stake in Eurosport since 2012.

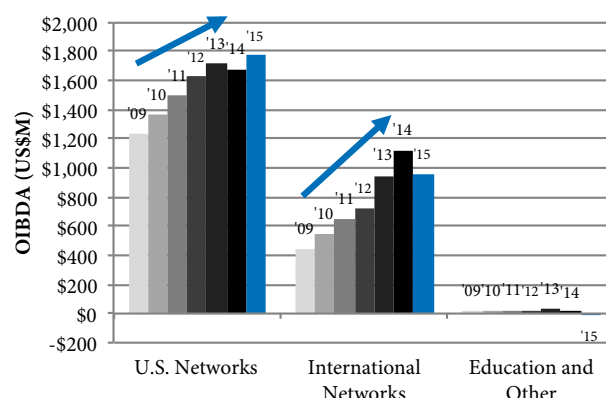


DISCOVERY COMMUNICATIONS INC:

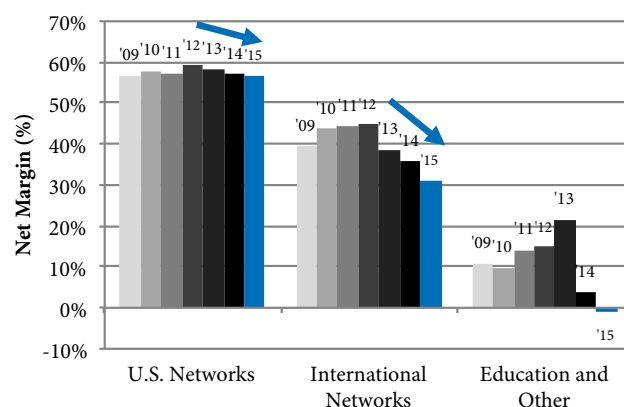
SEGMENT OPERATING PROFITS

- The Company measures its businesses using the metric – Adjusted Operating Income Before Depreciation and Amortization (AOIBDA)*. Management believes this measure is relevant to investors because it allows them to analyse the operating performance of each segment using the same metric management utilises.
- The Company has been able to growth its AOIBDA in both U.S. and International Networks in the past, with the exception of 2014 (US) and 2015 (International).
- However, the story is different on the AOIBDA margin front, with declines in both U.S. and International Networks since 2012.
- The Management have warned investors that its investment program in Eurosport will continue to depress margins for International Networks in the near term.
- As long-term investors, we are comfortable with Management (given their historical track record) making prudent long-term investments that can cause short-term earnings declines and margin volatility.

AOIBDA by Business Segment



AOIBDA Margins



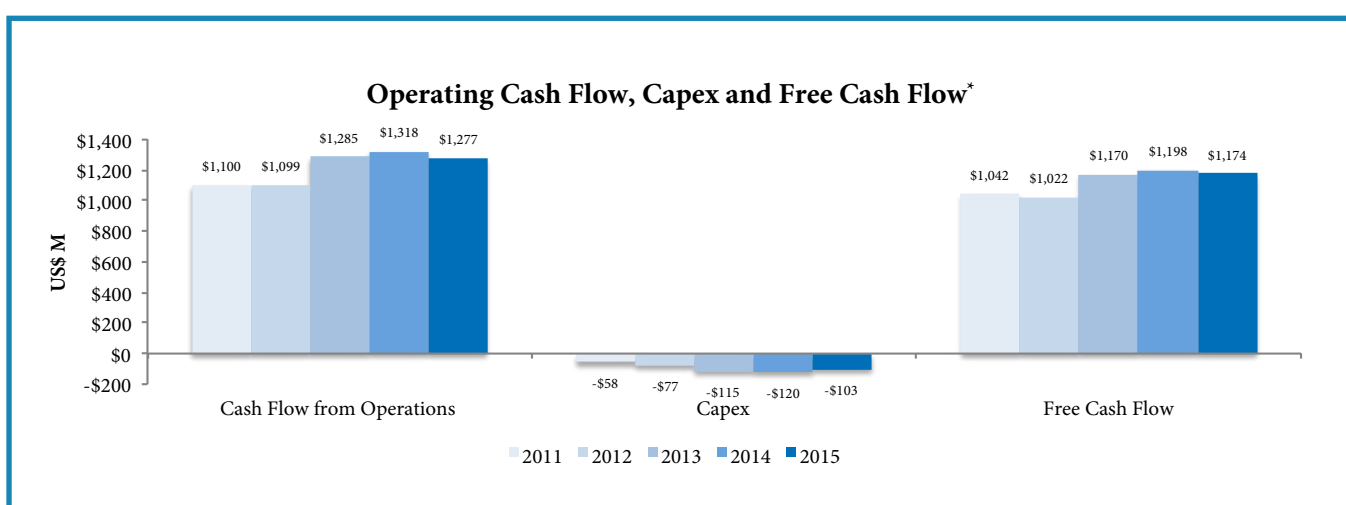
Source: Discovery Communications Annual Reports

* Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market equity-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) restructuring and other charges, (v) certain impairment charges, (vi) gains and losses on business and asset dispositions, and (vii) certain inter-segment eliminations related to production studios.



DISCOVERY COMMUNICATIONS INC: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- Discovery has an impressive free cash flow generative business model that generated over US\$1 Billion of free cash flow in each of the past five years.



“And when you look at the simple metrics of our free cash flow to debt yield today is mid teens, and it’s going to be growing to high teens. I mean, that is a significant amount of cash flow to debt yield. And so as we think about, we have no maturities until 2019, there’s no one year in the next 15 years that a maturity is more than our expected cash flows, and so we have a very de-risked cash flow model with debt, so we feel comfortable taking on that additional amount.”

What I’ll say then that our expectation is, you really don’t use leverage to buy back shares. I think it’s more you use of cash flow to buy back shares, maybe you use debt equity to do acquisitions and investments, maybe you use free cash flow. And so we’re going to be very, obviously, prudent about it. We’re still going to focus and prioritize organic growth, second, strategic acquisitions, and third, share repurchases.”

- Andy Warren (Discovery CFO) at Morgan Stanley TMT Conference on 1 March 2016

* Data Source: Thomson Reuters Eikon – As at 25 April 2016

DISCOVERY COMMUNICATIONS INC:

FINANCIAL POSITION

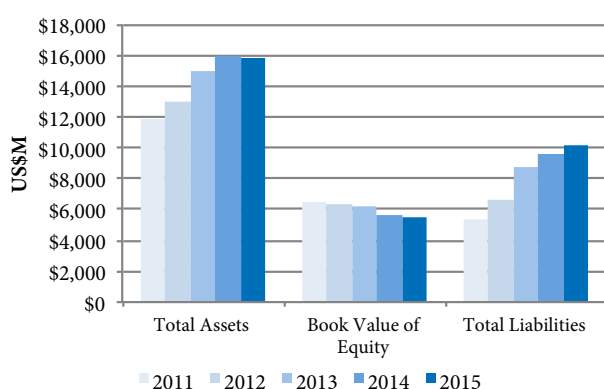
BALANCE SHEET

- Strong growth in Total Assets in recent years (except 2015), mainly due to increase in intangible assets/goodwill.
- The balance sheet has been leveraged up in recent years. However, as noted in the Free Cash Flow slide (page 34), Management is comfortable with the current debt levels versus FCF generated.
- Equity (i.e., Book Value) continues to decline due to share buybacks*.

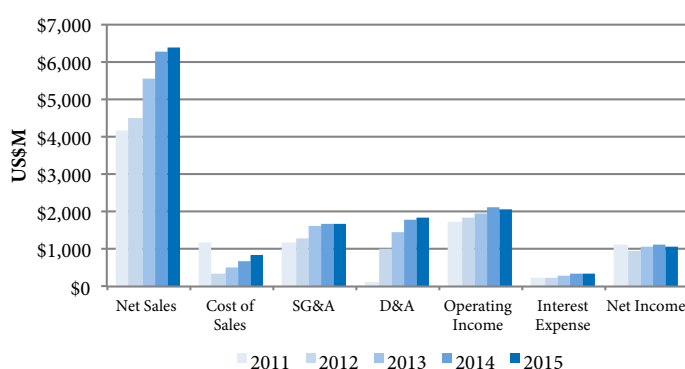
INCOME STATEMENT

- Management's commitment to continue to invest and increase spending for content on its networks (especially in the International Networks/Eurosport where the growth is coming from) means a significant increase in content amortisation cost.
- We are comfortable for Management to invest for the long term to grow these valuable brands and channels, even though it would depress GAAP accounting profits in the short term.

Total Assets, Book Value, Total Liabilities



Revenue, Costs and Profits



Data Source: Thomson Reuters Eikon as at 25 April 2016

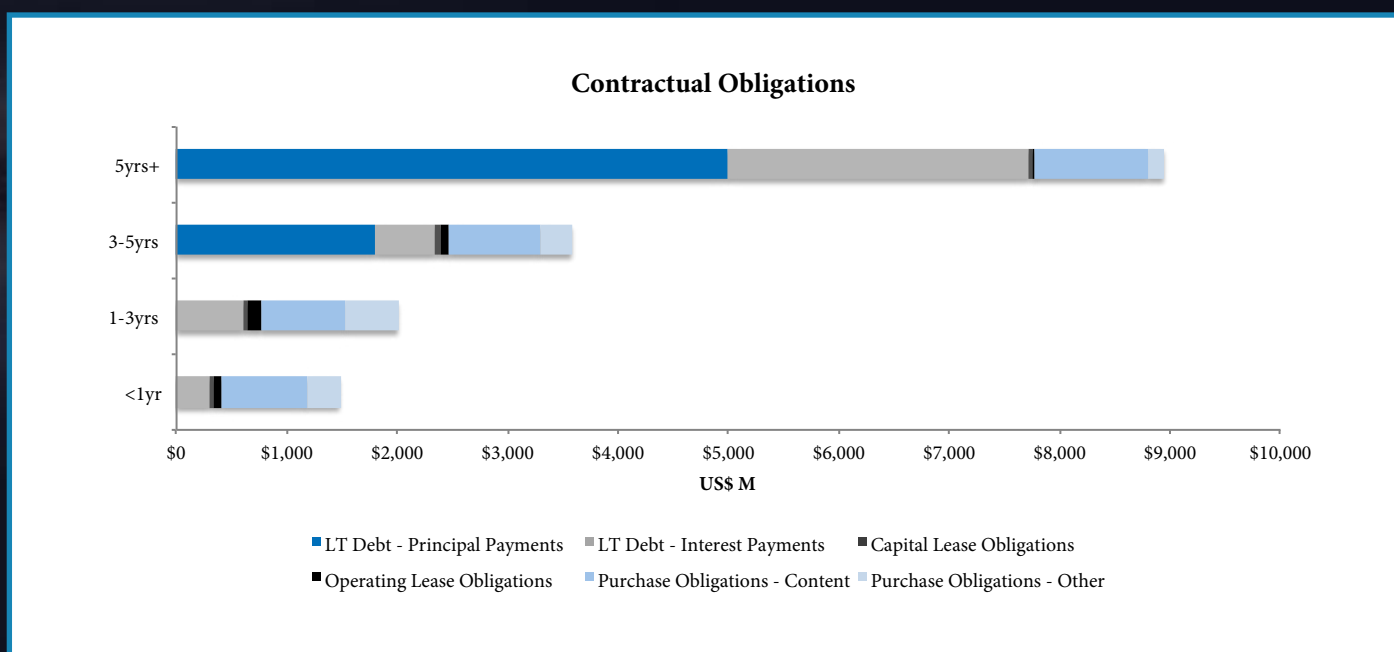
* As at 31 December 2015, the Company bought back US\$5.5B of common stock under the stock repurchase program, which reduces the Book Value by the same amount





DISCOVERY COMMUNICATIONS INC: CONTRACTUAL OBLIGATIONS

- We consider the Company's contractual obligations to be at reasonable levels, considering it has generated ~US\$ 1.2B of Free Cash Flow in the past three years.
- ~40% of the contractual obligations are long-term debt principal payments that can be paid by issuance of new senior notes. We will continue to monitor the amount of interest payments, with a view that interest rates could be on its way up.
- We also note that the Company contributes to defined contribution and other savings plans for its employees. It made total contributions of US\$ 36M in 2015 (US\$ 33M in 2014, US\$ 28M in 2013), and are recorded as part of the SG&A expenses.

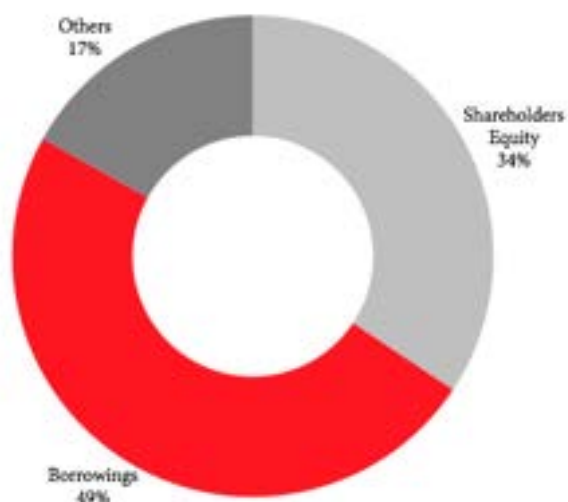


DISCOVERY COMMUNICATIONS INC: DEBT & TERM STRUCTURE

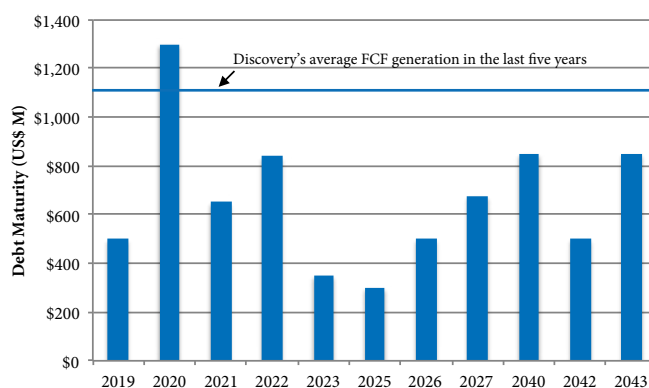
DEBT (48% OF TOTAL ASSETS)*

- The Company has debt totalling US\$ 7,990M**.
- The Company has no debt maturing until 2019.
- 30% of the debt has maturities beyond 2040.

Capital Structure



Debt Maturity Profile



DISCOVERY COMMUNICATIONS INC:

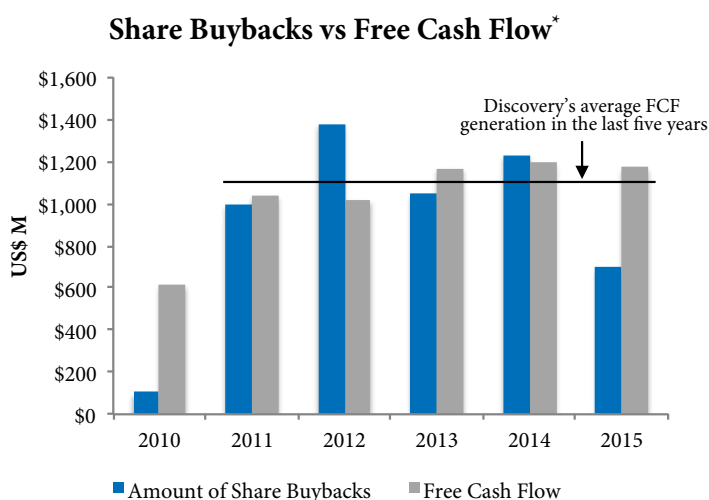
AGGRESSIVE CAPITAL RETURN VIA SHARE BUYBACKS (1)

NO DIVIDENDS

“We have not paid any cash dividends on our Series A common stock, Series B common stock or Series C common stock, and we have no present intention to do so.” – Discovery Communications 2015 10-K Report

SHARE BUYBACKS

- The Company utilises share buybacks as the sole means to return capital and create value for shareholders.
- US\$ 7.5B has been authorised since 2010 when the share repurchase program was initially implemented.
- There remains US\$ 1.8B** authorised for future repurchases (which will expire on 8 October 2017).
- The Company is capable of repurchasing more than US\$ 1B of shares annually based on its strong free cash flow generation.



“We did get back into the share repurchases more aggressively, because when I look at where our stock is today, and I look at our free cash flow per share growth, I mean, it is just an incredibly compelling return for myself, Dave, and the Board, and so that’s what drove the decision.”

- Andy Warren (Discovery CFO) at Morgan Stanley TMT Conference on 1 March 2016

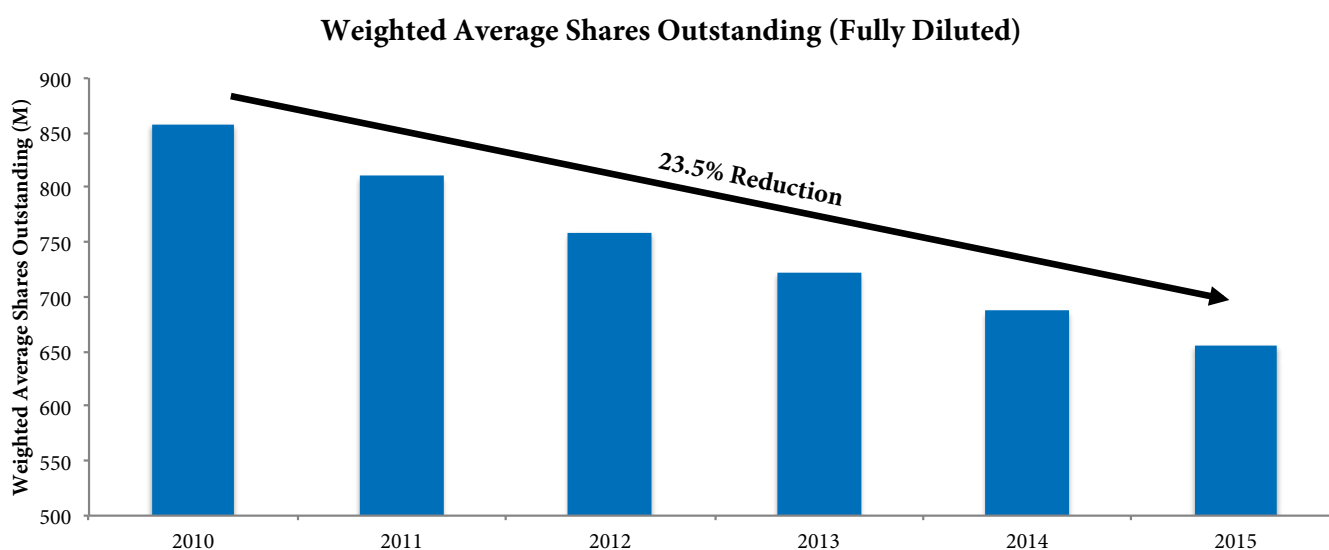
* Data Source: Thomson Reuters Eikon – As at 25 April 2016, and Discovery Communications 10-K and Annual Reports

** Discovery Communications Q1 2016 10-Q Report – 5 May 2016

DISCOVERY COMMUNICATIONS INC:

AGGRESSIVE CAPITAL RETURN VIA SHARE BUYBACKS (2)

- The chart below illustrates the stock repurchase program has significantly reduced the number of shares outstanding since 2010*.
- The Company has purchased 30%+ of the outstanding float, including preferred stock.
- As at 31 March 2016, the Company had bought back US\$5.7B of common stock under the stock repurchase program**.



DISCOVERY COMMUNICATIONS INC: CAPITAL & CASH FLOW DEPLOYMENT STRATEGY


We believe the Company's capital/cash flow deployment strategy will continue to create shareholder value in both the short term (via share buybacks) and the long term (CAPEX investment and via M&A).



“What I’ll say then that our expectation is, you really don’t use leverage to buy back shares. I think it’s more you use of cash flow to buy back shares, maybe you use debt equity to do acquisitions and investments, maybe you use free cash flow. And so we’re going to be very, obviously, prudent about it. We’re still going to focus and prioritize organic growth, second, strategic acquisitions, and third, share repurchases.”

- Andy Warren (Discovery CFO) at Morgan Stanley TMT Conference on 1 March 2016

DISCOVERY COMMUNICATIONS INC: OWNERSHIP HISTORY...

- 
- 1982 John Hendricks founded the Cable Educational Network, Inc.
- 1986 One year after the Launch of Discovery Channel, John Hendricks sold 49% of his business to Tele-Communications, Inc. (TCI, controlled by John Malone), 25% to Newhouse Broadcasting Corp (Advance/Newhouse, controlled by the Newhouse family) and 25% to Cox Cable Communications.
- 1999 AT&T acquired TCI for US\$ 48B.
- 2001 AT&T spun off Liberty Media, which holds the 50% stake in Discovery Communications.
- 2005 Discovery Holding Company (DHC) was spun off from Liberty Media. It consists of a 50% stake in Discovery Communications (DCI) and Ascent Media.
- 2007 *Cox exchanged its 25% DCI stake for the Travel Channel and US\$ 1.3B Cash, resulting in DHC's ownership of DCI increased to 66.7% and A/N's ownership of DCI increased to 33.3%.*
- 2008 DHC spun off Ascent Media to its shareholders, with its 66.7% stake in DCI remaining.
- A/N agreed to combine its 33.3% stake in DCI with DHC's 66.7% in DCI to form a new publicly-traded company called Discovery Communications Inc. A/N exchanged its 33.3% stake in DCI for convertible preferred stock.
- TODAY
- John Malone – 3.3% of economic ownership, and 21% of voting rights.
 - Advance/Newhouse – 34% of economic ownership, and 25% of voting rights.

DISCOVERY COMMUNICATIONS INC:

EQUITY OWNERSHIP

THREE SERIES OF COMMON STOCK*:

- Series A Common Stock – One vote per share (150,092,266 shares outstanding)
- Series B Common Stock – Ten votes per share (6,514,584 shares outstanding)
- Series C Common Stock – No votes (253,992,180 shares outstanding)

Series A Common Stock – Top Shareholders'	%'	Series B Common Stock – Top Shareholders'	%'	Series C Common Stock – Top Shareholders'	%'
ClearBridge Investments	12.0%	John Malone	93.54%	The Vanguard Group	8.7%
The Vanguard Group	8.4%	Paul Gould	1.34%	Brown Brothers Harriman	7.9%
Hotchkis and Wiley Capital	6.6%	Vantage Investment Advisory	0.20%	Vulcan Value Partners	7.3%
Newton Investment	5.6%	Robert Beck	0.17%	John Malone	5.3%
BlackRock Institutional Trust	4.2%	Dimensional Fund Advisors	0.13%	BlackRock Institutional Trust	4.4%
Jackson Square Partners	4.0%	TIAA Global Asset Management	0.10%	State Street Global Advisors	4.3%
State Street Global Advisors	4.0%	Geode Capital Management	0.02%	Jackson Square Partners	3.6%
Eagle Capital	3.1%	UBS Securities	0.01%	First Manhattan	2.4%
Bessemer Trust Company	2.9%	Tower Research Capital	0.01%	Eagle Capital	1.6%

TWO SERIES OF PREFERRED STOCK:

- Series A Preferred Shares (Owned by Advance/Newhouse, 71,107,312 shares**) Convertible to one share of Series A Common Stock and one share of Series C Common Stock
- Series C Preferred Shares (Owned by Advance/Newhouse, 33,055,763 shares***) Convertible to two shares of Series C Common Stock
- *We assume all Series A and Series C Preferred Shares are fully converted in our Market Cap, P/E, P/FCF and EV/EBITDA calculations.*

* Data Source: Thomson Reuters Eikon – As at 25 April 2016

** Schedule 13D/A filed by Advance/Newhouse on 22 February 2016 *** Form 4 filed by Advance/Newhouse on 9 May 2016

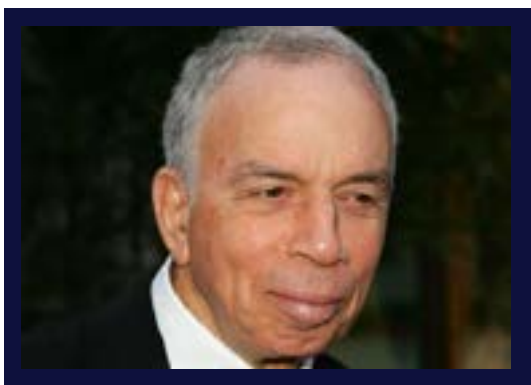
DISCOVERY COMMUNICATIONS INC: ADVANCE/NEWHOUSE PROGRAMMING PARTNERSHIP

ADVANCE/NEWHOUSE PROGRAMMING PARTNERSHIP

- Its Parent Company is Advance Publications, a private company that is owned by the Newhouse family.
- Advance Publications is one of the largest private companies in the U.S., which owns Bright House Networks (6th largest U.S. cable company, recently sold to Charter Communications), Conde Nast magazines (the New Yorker, Vogue, Vanity Fair, Wired, etc.), various newspapers serving 26 cities; a stake in Discovery and other businesses.

LARGEST SHAREHOLDER VIA PREFERRED SHARES

- Owns 71,107,312 shares of Series A Preferred Stock*
- Owns 33,055,763 shares of Series C Preferred Stock**
- Represents 34% of economic ownership, and 25% of voting rights



*Samuel Irving Newhouse Jr. –
Chairman of Advance Publications*



*Donald Newhouse – President of
Advance Publications*

* Schedule 13D/A filed by Advance/Newhouse on 22 February 2016

** Form 4 filed by Advance/Newhouse on 9 May 2016

DISCOVERY COMMUNICATIONS INC: CONTROLLING SHAREHOLDER – DR. JOHN MALONE

JOHN MALONE IS ONE OF THE BEST BUSINESS OWNERS / OPERATORS / INVESTORS IN OUR TIME...

- John Malone owns most of Discovery's Supervoting B shares.
- Owns 93.5% of Series B shares (0.3% of Series A shares*, 3.5% of Series C shares*).
- Represents 3.3% of economic ownership, and 21% of voting rights.

WIZARD OF FINANCIAL ENGINEERING AND OPERATIONAL OPTIMISATION

- Focus on wealth creation and levered cash flow growth.
- Focus on tax efficiency / minimisation in every aspect of business activities.
- Developing strong business cultures and employee loyalty through decentralisation, autonomy and generous incentives.
- Utilisation of leverage (Ownership, Operational, Financial) with tools such as supervoting stocks, holding company structure, joint venture, borrowing, etc., to maximise influence.
- Horizontal and vertical synergies / scale.
- Creating / realising value for shareholders via:
 - Opportunistic share buybacks;
 - Spinoffs / Reverse Morris Trust / Mergers / Stock swap;
 - Tracking stocks.

"John Malone proved once again that he's arguably the most powerful man in cable... and he's the nation's biggest individual landowner." - Forbes



* Assume Series A and Series C Preferred Shares owned by Advance/Newhouse are fully converted.

DISCOVERY COMMUNICATIONS INC: “A DOUBLE BANK SHOT” – JOHN MALONE

David Faber: Yeah, but you aren't going to exit Discovery to allow Charter to buy Time Warner Cable.

John Malone: No, but I could exit Charter. I mean, why would I exit Discovery when that is a double bank shot, if you want to call it that.

John Malone interviewed on CNBC
– 12 November 2015



DISCOVERY COMMUNICATIONS INC: DR. JOHN MALONE'S CABLE & MEDIA EMPIRE



LIBERTY GLOBAL

LIBERTY GLOBAL PLC

MarketCap = US\$ 32.6B
Economic ownership = 3%
Voting right = 26%
It is the largest international cable company, with 27M customers in 14 countries.



LIBERTY BROADBAND CORP

MarketCap = US\$ 5.4B
Economic ownership = 8%
Voting right = 47%
Principal assets: 26% of Charter Communications, TruePosition and 1% of Time Warner Cable.



QVC GROUP

TRACKING STOCK

MarketCap = US\$ 18.0B
Economic ownership = 6%
Voting right = 37%



LIBERTY MEDIA CORP

MarketCap = US\$ 12.5B
Economic ownership = 9%
Voting right = 47%
It owns interests in a broad range of media, communications and entertainment businesses.



LIBERTY TRIPADVISOR HOLDINGS

MarketCap = US\$ 1.6B
Economic ownership = 6%
Voting right = 4%
Principal assets: TripAdvisor and BuySeasons.



LIBERTY VENTURE GROUP TRACKING STOCK

Market Cap = US\$ 18.4B
Economic ownership = 6%
Voting right = 33%

5%

JOHN MALONE'S
ECONOMIC OWNERSHIP
OF HIS CABLE & MEDIA
EMPIRE

US\$ 106B

TOTAL MARKET
CAPITALISATION OF HIS
CABLE & MEDIA EMPIRE

31%

JOHN MALONE'S
VOTING RIGHTS FOR HIS
CABLE & MEDIA EMPIRE

MERGER TALKS



MarketCap* = US\$ 17.4B
Economic ownership = 3%
Voting right = 21%

Is the world's #1 pay-TV programmer, reaching 3 billion cumulative subscribers in more than 220 countries and territories.



MarketCap = US\$ 3.6B
Economic ownership = 3%
Voting right = 3%

Is a leading global entertainment company with a strong and diversified presence in motion picture production and distribution, television programming and syndication, home entertainment, family entertainment, digital distribution, new channel platforms and international distribution and sales.



MarketCap = US\$ 2.9B
Economic ownership = 6%
Voting right = 33%

Is a leading integrated global media and entertainment company that provides premium subscription video programming, global content distribution and animated television and movie production.

* We assume all Series A and Series C Preferred Shares are fully converted



DISCOVERY COMMUNICATIONS INC: DISCOVERY, LIBERTY GLOBAL, LIONSGATE & STARZ

- We believe the strategic alliance between Discovery, Liberty Global and Lionsgate is extremely powerful.
- If this relationship is deepened further, it should create significant operational leverage and therefore benefit Discovery shareholders.
- From John Malone’s point of view, the current structure of the alliance is providing him insight and optionality in the media sector, specifically in content creation. This alliance could also be a fully integrated content business, challenging the likes of Comcast, Fox and Disney.

RECENT EVENTS

FEB 15

Lionsgate swaps shares with Starz as John Malone joins Lionsgate board.

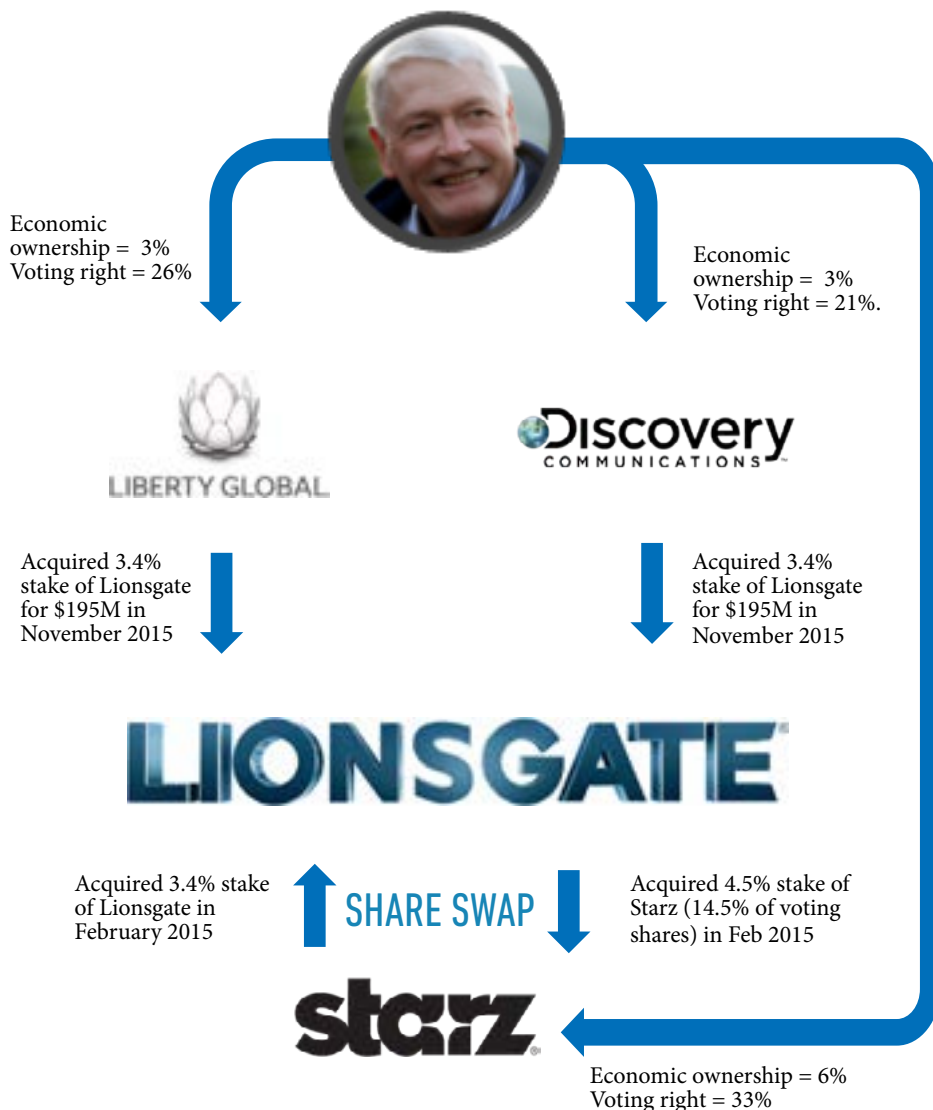
NOV 15

Lionsgate announces the partnership with Liberty Global and Discovery Communications:

1. Liberty Global and Discovery each acquire 3.4% stake in Lionsgate.
2. Liberty Global CEO and Discovery CEO to be named to Lionsgate board.
3. Partners enter into commercial agreements.

FEB 16

Lionsgate announces it “intends to explore whether there is a potential mutually beneficial combination of the two companies (Lionsgate & Starz).”



DISCOVERY COMMUNICATIONS INC: DAVID ZASLAV – PRESIDENT AND CEO SINCE 2007

CEO HIGHLY INCENTIVISED TO CREATE LONG-TERM VALUE FOR SHAREHOLDERS

- In 2014, the Company extended employment contract with David Zaslav to 31 December 2019.
- The vast amount of this total direct compensation package is performance based (98%).
 - US\$ 3M annual base salary (six-year term with no base salary increase)
 - 224,845 Sign-On Performance-based Restricted Stock Units (PRSUs)
 - 910,000 Performance-based Restricted Stock Units (PRSUs)
 - 3,702,660 Stock Appreciation Rights (SARs)
- The purpose of these performance-based compensations is to align Mr. Zaslav's interests to those of the shareholders for the long run. For example, the 3.7M SARs granted at the beginning of 2014 will have no value to Mr. Zaslav right now with the stock price been much lower than when it was granted.
- In 2014, controlling shareholder John Malone also granted stock voting right and first-refusal right to Mr. Zaslav with regard to Mr. Malone's ~6M Class B shares .

“Securing David for next six years recognizes his value to the enterprise, and provides continuity, strong leadership, and his trademark high energy to Discovery for many years to come” – John Hendricks, Founder of Discovery Communications



DISCOVERY COMMUNICATIONS INC: UNDER DAVID ZASLAV'S LEADERSHIP...

	2008	2015	△
Cumulative Subscribers	1.5B Subscribers	3.0B Subscribers	+100%
Countries	170 Countries	223 Countries	+31%
# of Networks	100 Networks	200 Networks	+100%
Revenue	US\$ 3.44B	US\$ 6.39B	+86%
Adjusted OIBDA*	US\$ 1.31B	US\$ 2.40B	+83%
International Revenue	34%	48%	+14%

“David has done a superb job. He built a strong management team that has expanded the company’s reach and relevance, increased its market share domestically and around the world, and created a bigger, stronger portfolio of brands. We look forward to working with David to do more of the same over the next six years.” – John Malone



* Operating Income Before Depreciation and Amortisation

DISCOVERY COMMUNICATIONS INC: ADDING EXPERIENCED MANAGERS – EXAMPLE – RICH ROSS

GROUP PRESIDENT OF DISCOVERY CHANNEL, ANIMAL PLANET AND SCIENCE CHANNEL

- In October 2014, the Company announced the appointment of former Disney executive Rich Ross to the position of President of Discovery Channel.
- In August 2015, the Company promoted Mr. Ross to be the Group President of Discovery Channel, Animal Planet and Science Channel.
- He spent 16 years working at Disney, and is credited with the successful Disney's global kids' TV business, and the launch of the highly successful Disney Channel Original Movie franchise. Mr. Ross was named Chairman of Walt Disney Studios in 2009, overseeing Disney's film, music and theatrical groups.
- He also worked at Nickelodeon, Fox and FX in the past.

“What I do believe is must-have programming is what fuels a brand. I hear loud and clear from my boss and our board to do exactly what my boss said at Disney, and my boss said at Fox, and my boss said at Nickelodeon, and my boss said at FX. They say: ‘Make what people want to watch and the rest goes with it’. I don’t think that has changed at all. My job every day is to make what people want to watch.”

– Rich Ross’ interview with The Guardian in August 2015



DISCOVERY COMMUNICATIONS INC:

COMPARABLE COMPANIES – MARGINS AND RETURNS

- Discovery's margins are superior to the majority of its peers due to its superior business model (low-cost non-fiction content that appeals to a diverse global audience) and its scale (world's #1 Pay-TV programmer).
- As noted earlier, short-term returns and net profits are currently impacted by a significant content/programming investment in International Networks/Eurosport.

Company Name	Net Profit Margin	Gross Profit Margin	Normalised EBITDA Margin	Normalised EBIT Margin	ROE	ROA	Market Cap (USD M)
Lions Gate Entertainment Corp	7.6%	45.2%	10.0%	9.7%	7.3%	5.9%	3,031
CBS Corp	10.1%	40.1%	22.4%	20.5%	22.4%	6.0%	25,830
Twenty-First Century Fox Inc	28.9%	36.0%	22.9%	20.4%	14.3%	16.4%	59,308
Viacom Inc	14.5%	48.2%	26.7%	25.0%	53.1%	8.9%	17,318
Time Warner Inc	13.5%	42.5%	27.2%	24.8%	15.7%	6.0%	60,858
Walt Disney Co	16.0%	45.9%	29.7%	25.2%	20.6%	10.3%	171,135
AMC Networks Inc	14.2%	55.9%	31.4%	28.2%	0.0%	9.3%	4,745
Comcast Corp	11.0%	69.7%	33.1%	21.5%	15.6%	5.2%	148,066
Scripps Networks Interactive Inc	20.1%	67.3%	43.8%	39.3%	41.8%	13.7%	8,266
Netflix Inc	1.8%	32.3%	56.8%	4.5%	6.0%	1.4%	39,587
Starz	13.9%	46.7%	70.1%	24.1%	177.4%	15.1%	2,575
Discovery Communications Inc	10.7%	63.4%	61.0%	32.1%	12.4%	6.6%	17,413*
Median	14.2%	45.9%	27.2%	24.8%	15.7%	8.9%	25,830
Mean	15.1%	50.1%	27.5%	23.8%	21.2%	9.1%	55,395

DISCOVERY COMMUNICATIONS INC:

COMPARABLE COMPANIES –

FINANCIAL LEVERAGE

- Based on balance sheet ratios (Net Debt / EV, Total Debt / Total Equity, Quick Ratio), Discovery is a more leveraged business versus its peers – reflective of John Malone control and the strong cash flows of the business.
- However, if we look at earnings/cash flow-based ratios such as Net Debt / EBITDA, Discovery is actually less levered than a number of its peers.

Company Name	Net Debt to EV	Net Debt to Normalised EBITDA	Total Debt to Total Equity	Quick Ratio	Market Cap (USD M)
Lions Gate Entertainment Corp	33%	2790%	156%	0.00	3,031
Viacom Inc	41%	355%	347%	0.98	17,318
AMC Networks Inc	32%	294%	0%	1.85	4,745
Scripps Networks Interactive Inc	30%	286%	263%	1.77	8,266
Time Warner Inc	26%	283%	101%	1.34	60,858
CBS Corp	24%	262%	152%	1.26	25,830
Twenty-First Century Fox Inc	20%	247%	111%	2.01	59,308
Comcast Corp	25%	204%	101%	0.68	148,066
Walt Disney Co	8%	89%	39%	0.93	171,135
Starz	29%	86%	477%	2.30	2,575
Netflix Inc	1%	7%	107%	1.54	39,587
Discovery Communications Inc	39%	180%	142%	1.64	17,413
Median	26%	283%	111%	1.26	25,830
Mean	27%	535%	141%	1.20	55,395

DISCOVERY COMMUNICATIONS INC: COMPARABLE COMPANIES – VALUATION

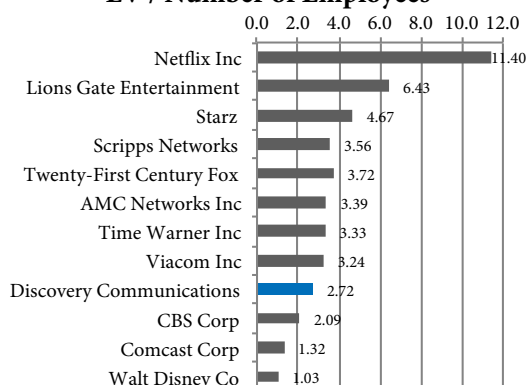
- The media sector as a whole has been under pressure in the last few years due to advances in technology and structural changes to the industry.
- Most of companies listed below are trading at low valuations relative to historical levels, given the market's prevailing view of a widespread permanent decline in business values/valuations.
- Discovery has been hit harder than most of its peers, and hence is now trading at a significant discount relative to its peers on all traditional metrics primarily (we believe) because of the negative f/x impact on ~50% of its revenue, which derives from its international business.
- In the long run, we believe that Discovery should command a premium to its slower growing peers due to its economies of scale, international growth profile and superior business model.

Company Name	P/E	Forward P/E	P/S	EV/ Normalised EBITDA	P/CF	P/B	Gross Div Yield	Market Cap (USD M)
Lions Gate Entertainment Corp	28.3	83.6	1.4	25.7	20.3	3.2	1.6%	3,031
Netflix Inc	407.1	350.1	5.5	12.7	0.0	17.1	0.0%	39,587
Twenty-First Century Fox Inc	8.3	18.0	2.2	11.8	20.0	4.1	1.0%	59,308
Walt Disney Co	21.0	18.0	3.2	11.7	15.0	4.1	1.3%	171,135
AMC Networks Inc	14.9	11.3	1.8	9.9	12.8	-120.8	0.0%	4,745
CBS Corp	16.4	14.1	1.8	9.6	18.4	4.7	1.1%	25,830
Time Warner Inc	14.2	14.4	2.2	9.6	15.8	2.6	1.8%	60,858
Comcast Corp	17.4	17.5	2.0	8.7	7.9	3.3	1.6%	148,066
Scripps Networks Interactive Inc	11.9	12.8	2.7	8.5	10.2	5.4	1.4%	8,266
Viacom Inc	9.1	8.8	1.3	8.3	8.1	4.6	3.5%	17,318
Starz	15.1	11.1	1.5	3.7	10.3	11.9	0.0%	2,575
Discovery Communications Inc	17.7	15.2	1.8	4.9	9.1	2.1	0.0%	17,413
Median	16.4	17.5	2.2	9.9	15.0	4.1	1.3%	39,587
Mean	59.9	60.0	2.5	12.0	13.4	-8.5	1.1%	57,870

DISCOVERY COMMUNICATIONS INC: COMPARABLE COMPANIES – EMPLOYEE EFFICIENCY

- We utilise the Enterprise Value to Employee Ratio to measure how worker-intensive a business or an industry is. We also use this metric to compare businesses within the same industry to rank their relative efficiency.
- We suggest the reasons Discovery has a below average EV/Employee ratio are because of the following:
 - An overly pessimistic valuation of the Company's shares
 - The Company's significant expansion, growth and acquisitions/investments in international markets in recent years which has an inherent higher cost basis (technology, infrastructure and content costs. e.g., re-languaging the content into 40 languages) versus the U.S. markets which is the most profitable media market in the world.
- Management recently commented: "...we'll see international margin expansion over time. We have said now that when we bought some of the assets that we've purchased, [SBSU or sport], there's a step down in margin, and we understand that, and then we're going to build margins for that new base..."*
- We concur with the Management and expect the Company to improve its margins and operating efficiency in the years ahead.

EV / Number of Employees



Company Name	Current EV (USD M)	Number of Employees	EV / Number of Employees
Netflix Inc	39,886.5	3,500	11.40
Lions Gate Entertainment Corp	4,626.7	719	6.43
Starz	3,601.8	772	4.67
Scripps Networks Interactive Inc	12,465.1	3,500	3.56
Twenty-First Century Fox Inc	76,360.4	20,500	3.72
AMC Networks Inc	7,371.9	2,175	3.39
Time Warner Inc	82,523.7	24,800	3.33
Viacom Inc	29,846.6	9,200	3.24
Discovery Communications Inc	19,025.7	7,000	2.72
CBS Corp	33,955.1	16,260	2.09
Comcast Corp	201,215.6	153,000	1.32
Walt Disney Co	189,989.4	185,000	1.03
Median			3.56
Mean			4.72

DISCOVERY COMMUNICATIONS INC:

HISTORICAL INDUSTRY CONSOLIDATION MULTIPLES

- Content distributors have been active in consolidation in recent years, we note the two big deals in 2015:
 - Charter's announced US\$ 55B acquisition of Time Warner Cable (approved on 25 April 2016).
 - AT&T's US\$ 49B acquisition of DirecTV (July 2015).
- Content producers may need to consolidate in order to maintain their negotiating positions with distributors. Discovery's unique international channel infrastructure makes the Company an attractive strategic target for major U.S. media companies looking to increase their exposure to international markets.
- The table below details M&A transaction precedents (where content producers are M&A targets) over the past 13 years, demonstrating a median takeover multiple of 14.5x EV/EBITDA.
- If we use the median EBITDA multiple of 14.5x to generate what we believe Discovery may be worth in a takeover situation today based on TTM EBITDA. This generates an estimated intrinsic value of US\$ 41.67 per share (versus current price of US\$ 27.93 per share).

Acquirer	Target	Year	Deal Value (US\$)	EV/EBITDA
Comcast Corp	Dreamworks Animation Skg Inc	2016	3.9B	n/mf
Dalian Wanda Group	Legendary Entertainment	2015	3.5B	n/a
Discovery Com/Liberty Global	All3Media	2014	930M	8.5x
21st Century Fox (failed)	Time Warner	2014	80B	12.6x
Walt Disney Co	Locasfilm	2012	4.1B	n/a
Disney/Hearst	A&E Networks	2012	19.2B	15.0x
Walt Disney Co	Marvel Entertainment Inc	2009	4.0B	12.5x
Comcast Corp	NBC Universal Inc	2009	31.5B	12.3x
Hasbro	50% of Discovery Kids	2009	300M	19.0x
NBCU/Private Equity	Weather Channel	2008	3.5B	15.0x
Cablevision	Sundance Channel	2008	496M	14.0x
Cox	Travel Channel	2007	684M	18.0x
Time Warner	Court TV	2006	1.5B	18.0x
Walt Disney Co	Pixar Inc	2006	6.5B	25.4x
CBS	CSTV	2005	325M	17.0x
News Corp	Fox Entertainment Group Inc	2005	7.1B	12.7x
LOC Acquisition Co	Metro-Goldwyn-Mayer Inc	2004	4.8B	6.2x
GE	USA Networks	2003	8.7B	17.0x
			Mean	14.9x
			Median	14.5x
			Discovery	EV = 19.1B 10.8x

DISCOVERY COMMUNICATIONS INC: POTENTIAL ACQUIRERS

We suggest the following to be potential acquirers of Discovery:

- John Malone/Liberty Global
 - We suggest the continuation/strengthening of the alliance between Liberty Global, Discovery, Lionsgate and Starz could result in Liberty Global acquiring Discovery.
- Major U.S. Media Companies
 - Discovery's unique international channel infrastructure makes the Company an attractive strategic target for major U.S. media companies looking to increase their exposure to international markets.
- Major U.S. Technology Companies
 - Discovery's valuable "premium" content library and its robust business model makes it valuable to technology companies that are contemplating an invasion into the media/entertainment business.
- Chinese Media/Technology Companies
 - In recent years, Chinese companies have shown significant interest in Hollywood and the U.S. media industry. The latest speculation is that Alibaba, Dalian Wanda Group and Fosun International are among the potential buyers for a stake in Paramount. Earlier this year, Dalian Wanda acquired Legendary Entertainment for US\$3.5B.



DISCOVERY COMMUNICATIONS INC:

KEY OPPORTUNITIES (1)

FEE INCREASES IN US

Discovery's audience share in the US is at 12% yet its share of revenue is just 3%. Management has stated that they believe there is margin expansion potential for the US market over time. The recent increases in distribution/carriage fees instituted with Comcast (July 2015) is evidence of the pricing power that Discovery's suite of channels can command despite widespread uncertainty and bearishness in the sector. Fee increases are expected to drive high single digit growth in US revenues in the medium term.

ANCILLARY RIGHTS MONETISATION - TV EVERYWHERE, OVER-THE-TOP* (OTT) AND OTHER PLATFORMS

Discovery (in our opinion) has been slow to monetise ancillary content rights. It has began this process with Time Warner Cable in 2013 and Comcast in 2015. These agreements provides TV Everywhere access to Discovery content. In additional to TV Everywhere rights with existing distributors, we expect Discovery to more freely monetise its content via OTT platforms to provide a third revenue stream to its current dual revenue (distribution fees and advertising) model.

We believe the popularity of OTT services such as Netflix, Hulu and Amazon Video will create opportunities for content providers like Discovery to be on such platforms. In addition, the Company could garner revenues from providing content directly to consumers through the internet (e.g., Eurosport Player) or via a platform such as Apple TV and Amazon Video. This would create an additional monetisation mechanism for the Company's deep library of content.



Eurosport Player has 10 to 30 live feeds at any given time

DISCOVERY COMMUNICATIONS INC:

KEY OPPORTUNITIES (2)

TV EVERYWHERE – “DISCOVERY GO” APP

- On 1 December 2015, Discovery launched its own streaming app “Discovery Go” to provide a new way to deliver digital content to pay-TV cable subscribers.
- Nine channels are available to US customers: Discovery, TLC, Animal Planet, Investigation Discovery, Science Channel, Destination America, American Heroes Channel, Discovery Life, and Velocity.
- The current episodes will be available the day after they air on TV.
- The app also provides live streams of each network, so customers can watch live TV whenever and wherever they want.



“The demographic is over half is 18 to 35 years old, and so that’s something that we honestly didn’t expect... We’re getting a lot of information on both consumer behaviour and allows us opportunities with ad insertions, etc, to monetise it uniquely. So viewership is better than we thought, the demographic is better than we thought, and right now the revenue profile is better than we expected. So, so far it’s early, but we’re very pleased with it.”

- Andy Warren (Discovery CFO) at Morgan Stanley TMT Conference on 1 March 2016

DISCOVERY COMMUNICATIONS INC: KEY OPPORTUNITIES (3)

GROWTH IN SPORTS REVENUE IN EUROPE

The acquisition and full control of Eurosport is expected to provide long-term growth opportunities from existing and future paying subscribers. Discovery intends to invest in additional sports programming to make it the No 1 sports channel in the European continent. This will help the Company to maximise its reach to Europe's 700 million residents across all platforms and increase the number of paying subscribers which currently stands at 300,000.

CONTINUED EXPANSION OVERSEAS

Discovery has terrific opportunities to grow organically through increased penetration and reach. This is possible due to the ubiquitous nature of content that Discovery produces which has the ability to transcend boundaries / nationalities. The strong growth in audience share achieved in countries like Brazil and India is evidence of that and we see tremendous growth in emerging markets given their significant population bases. We note that international markets still look like the U.S. in the 1990's – underpenetrated and underpriced.



DISCOVERY COMMUNICATIONS INC:

KEY RISKS (1)

CONSOLIDATION BETWEEN CABLE AND SATELLITE PROVIDERS

The top 10 cable and satellite firms comprise 90% of Discovery's revenues in the US. In addition many of Discovery's international markets have a small number of dominant distributors. Continued consolidation within the industry could reduce the number of distributors thereby putting pressure on affiliate fees as distributors seek greater discounts from programming and content providers like Discovery.

CHANGES IN CONSUMER TASTES AND PREFERENCES

Reduced public interest of Discovery's content could decrease its audience share and adversely affect advertising and subscription revenues. This could be due to changing preferences of viewers in general or in specific demographic categories. The availability of alternative forms of entertainment and leisure time activities could also influence demand.

EVOLUTION IN DISTRIBUTION PLATFORMS AND OTT SERVICES, PROBLEMS WITH RATINGS

The advent of subscription video on demand (SVOD) from companies like Netflix and traditional distributors could potentially reduce the demand for Discovery's programming content. Further more, the move to digital/multi-platform consumptions has created some problems in measuring ratings, and hence potentially affecting Discovery's content attractiveness to advertisers in the short term.

FX RISK/S

Half of Discovery's revenues come from international markets subjecting the Company to foreign exchange risk due to a strengthening US dollar. Moreover international exposure is likely to increase given the likelihood of those markets outstripping US growth in the long run. Foreign exchange has been a major source of headwinds for Discovery in 2015.





DISCOVERY COMMUNICATIONS INC:

KEY RISKS (2)

THREATS FROM NETFLIX AND OTHER TECH GIANTS

- Discovery and other content producers are under pressure to serve up programming piecemeal to the likes of Netflix, Apple, Amazon, etc.
- We believe Discovery as a premium content producer is well placed to distribute its growing content library via various distribution networks, including directly to its viewers.
- We continue to believe that “premium” content is king. We would rather own “must-see” content than the distribution networks/models/technologies that potentially could be disrupted/replaced by the advance of new and unforeseen models/technologies (Netflix vs iTunes vs Blockbuster, Blue-Ray vs DVD vs VHS, etc.).
- We also prefer to own “profitability” vs. “promise”.

		
Market Cap (US\$)	17.4B	39.6B
Sales (US\$)	6,494M	6,780M
Net Profit (US\$)	1,034M	123M
P/E	17.7x	407x
Forward P/E	15.2x	350x
P/S	1.8x	5.5x
EV/ Normalised EBITDA	4.9x	12.7x
P/CF	9.8x	Negative
P/B	2.1x	17.1
Gross Dividend Yield	0.0%	0.0%
Net Profit Margin	11%	2%
Gross Profit Margin	63%	32%
Normalised EBITDA Margin	61%	57%
Normalised EBIT Margin	32%	5%
ROE	12%	6%
ROA	7%	1%
Net Debt To EV	0.4	0.0
Net Debt To Normalised EBITDA	1.8	0.1
Total Debt to Total Equity	1.4	1.1
Quick Ratio	1.6	1.5

DISCOVERY COMMUNICATIONS INC:

KEY RISKS (3)

ACQUISITION RISK/S

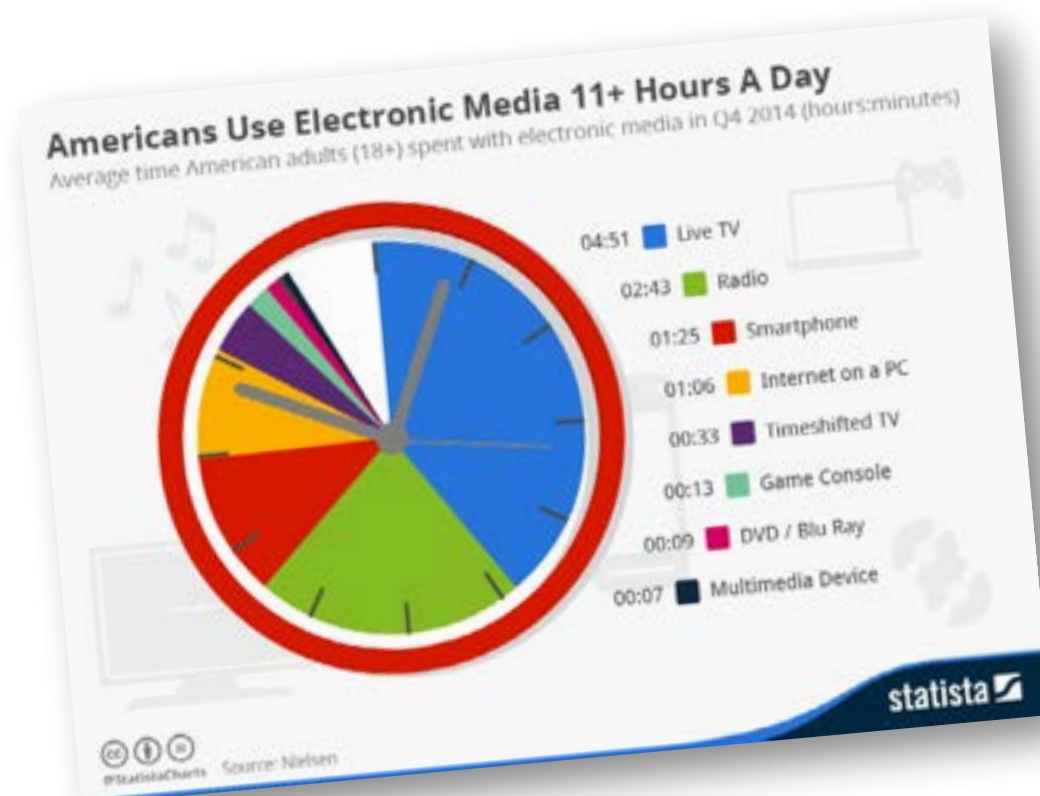
Management supplemented organic growth with acquisitions to increase penetration, reach and broaden its network offerings. However, should future acquisitions fail to drive growth and audience share and/or are made at high valuations then that would undermine shareholder value.

REGULATION

Programming service providers and cable and satellite operators are highly regulated by US federal laws and regulations and administered by various federal agencies. Similarly international markets in which Discovery operates have varying degrees of laws and regulations. An increase in regulation could impinge Discovery's business, results of operations and the ability to expand in those markets.

COMPETITION

Discovery faces competition from other rival programming networks vying for audience share and distribution rights and also competing media such as desktop streaming, mobile videos, periodicals and movies. Advertising growth on websites and search engines has seen significant growth primarily due to the migration of ads from traditional cable and satellite networks.



DISCOVERY COMMUNICATIONS INC: ELEVATION CAPITAL CONCLUSION (1)

WIDE ECONOMIC MOAT

We are attracted to the Company's wide economic moat, created by the combination of the following factors:



ECONOMIES OF SCALE

#1 Pay-TV
programmer reaching
3 billion cumulative
subscribers.



BRAND VALUE

“Must-have” channels
such as Discovery
channel, Animal
Planet, TLC, etc.



ROBUST BUSINESS MODEL

Large content library
of evergreen content
that has global appeal
and local relevance
which are produced
and distributed in
a very cost efficient
manner.



MANAGEMENT

Management and
controlling shareholder/s
who are experienced,
visionary and
shareholder-oriented.

DISCOVERY COMMUNICATIONS INC: ELEVATION CAPITAL CONCLUSION (2)

INDISCRIMINATE SELLING IN MEDIA STOCKS

- For the last two years, fears among U.S. media investors concerning growing number of “cord-cutters”, “cord-shavers” and OTT services have pressured the listed U.S. media sector, and compressed U.S. media sector multiples significantly.
- Discovery is well positioned, with world class brands, and about half of its revenues generated outside U.S., particularly in those markets where pay-TV subscribers are still growing in aggregate numbers.
- In the long run, we believe that Discovery should command a premium to its slower growing peers due to its economies of scale, international growth profile and superior business model.

POTENTIAL CATALYSTS

- The Company’s premium content is geographic/platform agnostic and should still thrive with the next generation of media distribution/consumption models.
- Excluding currency fluctuations Discovery is expected to achieve high single digit growth in revenues, EBITDA and earnings per share in the medium term as both its US and international networks are forecast to grow strongly.
- In our view, at the current share price levels Discovery could be an attractive acquisition candidate for global media companies (e.g., Fox, CBS, Time Warner, etc.) intending to further bolster their content and international presence, including John Malone’s entities.



DISCOVERY COMMUNICATIONS INC: ELEVATION CAPITAL CONCLUSION (3)

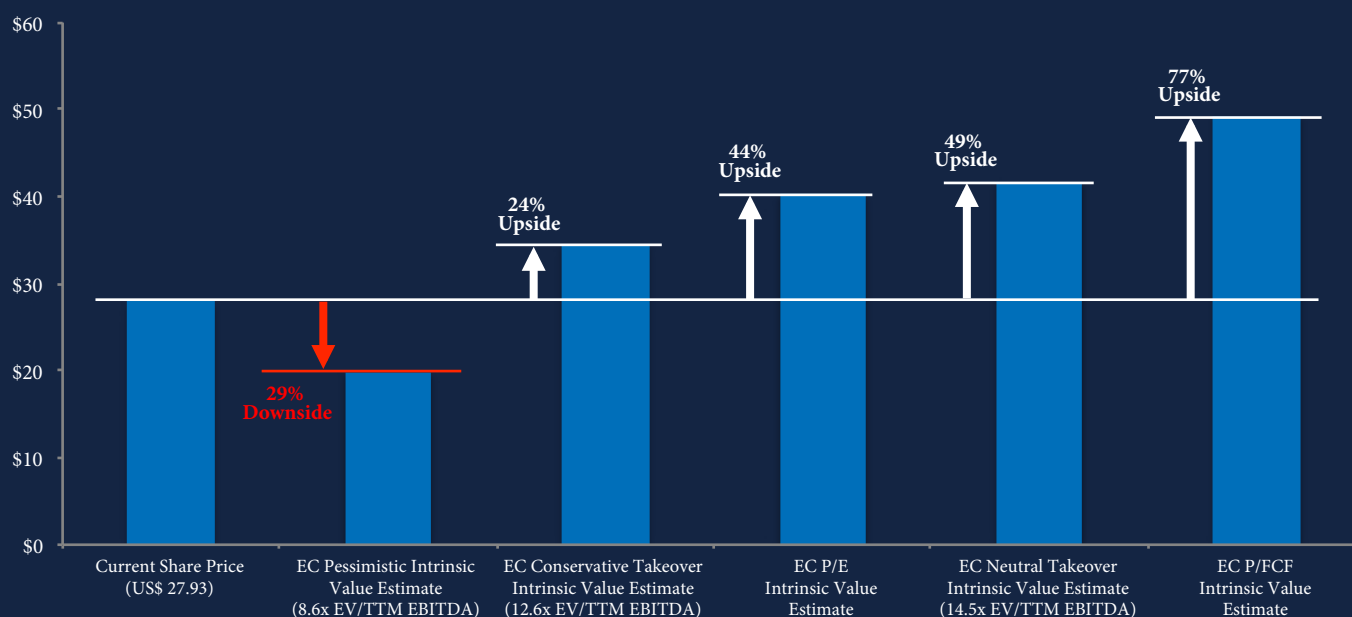
VALUATION

Discovery is trading at a considerable discount to our estimated intrinsic values and therefore appears inexpensive compared to its long-term growth prospects. We believe this asymmetric payoff characteristic should deliver reasonable returns for long-term minded investors.

ELEVATION CAPITAL ESTIMATED INTRINSIC VALUE RANGE:

US\$ 19.91 - US\$ 49.44 PER SHARE

VALUE SUMMARY



DOWNSIDE / UPSIDE POTENTIAL RANGE:

-29% - +77%

1. Share Price as at 25 April 2016

2. EC Pessimistic scenario is based on a 20% discount to current EBITDA multiple of 10.8x

3. EC Conservative Takeover scenario is based on EBITDA multiple of 12.6x, which is the multiple 21st Century Fox offered to acquire Time Warner in 2014

4. EC P/E Intrinsic Value Estimate is based on current P/E multiple of 17.7x, and EC estimated 2018 EPS based on Company's indicated low double digit EPS CAGR

5. EC Optimistic Takeover scenario is based on EBITDA multiple of 14.5x, which is the median takeover multiple of 14.5x EBITDA of selected M&A transaction precedents

6. EC P/FCF Intrinsic Value Estimate is based on current P/FCF multiple of 15.6x, and EC estimated 2018 FCF based on Company's indicated low double digit FCF CAGR



ELEVATION CAPITAL MANAGEMENT LIMITED

EDGEWELL PERSONAL CARE COMPANY

[EPC:US]

Research Presentation published in November 2016



INVESTMENT SUMMARY:

CHALLENGER POSITION IN PERSONAL CARE MARKET

Edgewell is the personal care business of the old Energizer Holdings. In 2015, the Company spun-off the battery business to the newly formed Energizer Holdings, Inc. (ENR – NYSE listed) and renamed itself Edgewell Personal Care Company (EPC – NYSE listed, Market Capitalisation US\$4.5B). Edgewell reported annual net sales of US\$2.362B in 2016.

Edgewell has a portfolio of over 25 personal care brands that it acquired in the years since 2003. These brands include Schick, Wilkinson Sword, Edge, Skintimate, Playtax, Hawaiian Tropic, Banana Boat, Carefree, Stayfree, o.b. and others. These brands hold competitive positions in attractive categories within the Personal Care market and are among the top three players in all the categories/market segments they compete in:

- WET SHAVE #2 (Shaving - Male/Female)
 - Key Markets: US, Canada, Japan and Germany
- SUN & SKIN CARE #1 (Sun) Key Markets
 - US, Mexico and Australia
- FEMININE CARE #2/#3 (Tampons/Liners and Pads) -
 - Key Markets: US and Canada
- INFANT CARE #1 (Diaper Disposal)
 - Key Markets: US and Canada

AN ATTRACTIVE MARKET AND SUSTAINABLE VALUE PROPOSITION

“you can sleep pretty well at night if you think of a couple billion men with their hair growing on their faces. It is growing all night while you sleep. Women have two legs; it is even better. So it beats counting sheep. And those are the kinds of business (you look for)...”

- Warren Buffett on the shaving business, 15th October 1998.

COST-CUTTING PAVES WAY FOR MARGIN IMPROVEMENT

The Company has suffered from cost increases due to the dis-synergies after the separation from Energizer Holdings. However, Management expects the cost saving initiatives / restructuring programmes announced should more than cover the additional corporate and SG&A costs caused by the separation, and target +50bps of operating margin expansion per annum going forward.

INTERNATIONAL GROWTH OPPORTUNITIES

Edgewell has a global footprint in only 50 countries (versus its peers P&G and Unilever who are both present in over 180+ markets). Currently, the Company derives 42% of its revenue from its international business, which is the faster growing market segment for all its products. As the Company continues execution of its go-to market changes, the simplified and streamlined distribution model will also allow the Company to enter new markets with greater agility and lower costs. As an example, the all-important but extremely competitive Men's Wet Shave in the U.S. represents only 9% of global wet shave category sales. Edgewell is seeking growth opportunities in the other

91% (i.e., internationally), and other adjacent product segments.

POTENTIAL EXPANSION IN E-COMMERCE & DIRECT TO CONSUMER (DTC) MARKET SEGMENTS

We note that Edgewell has not proactively engaged or participated in the fast growing online/e-commerce market, especially in relation to Direct-to-Consumer (DTC) solutions (such as Dollar Shave Club). Management has noted the Company is currently investigating DTC propositions and we eagerly await clarification on this issue.

We see parallels in the media sector where content creators are restricted in their ability to execute aggressive DTC strategies due to pre-negotiated contracts with distribution partners. This contrasts with new players who have been able to aggressively expand DTC solutions, quickly gaining market share. Disruptive businesses are challenging market fundamentals and we urge Management to review their current business strategy with a focus toward innovation in an effort to remain competitive.

LOW CAPEX PROVIDES HISTORICALLY HIGH FREE CASH FLOWS

It is important to understand a company's ability to generate cash without external financings. We look at measures such as the Free Cash Flow (FCF) Conversion Rate* to help gauge the resources available for strategic opportunities such as undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance. Edgewell has historically generated significant free cash flow due to its low capex requirements, achieving a FCF Conversion Rate of 100%+. Management is guiding FCF Conversion of 100%+ for 2017 which will enable the Edgewell to reinvest in the business, return value to shareholders and pursue a disciplined approach to acquisitions.

**Free Cash Flow Conversion Rate (Efficiency) is defined as Free Cash Flow / Net Income. This measure illustrates how efficient the business is at generating free cash flow versus its reported / accounting net income.*

REINSTATING A DIVIDEND

Edgewell eliminated quarterly dividends following the separation from Energizer. The priority of uses of cash is first business development, followed by M&A and then share repurchase, although a dividend policy is reviewed by the Board regularly. We suggest the stock will be rerated if/when Edgewell reinstates its dividend. The Company's high free cash flow conversion rate makes it an ideal candidate to be a consistent dividend paying stock. Reinstating its dividends would allow institutional investors which require a stock to pay a dividend to invest in the Company.

ACQUISITION TARGET - ATTRACTIVE CATEGORIES IN PERSONAL CARE WITH SYNERGISTIC OPPORTUNITIES

Edgewell is an attractive acquisition target for larger players in the industry due to its relatively small size, strong/challenger

position in several attractive categories in personal care and the potential strong top-line/cost synergies that could be extracted by acquiring the Company.

Since we view Edgewell as a likely acquisition target, we have reviewed major M&A transactions in recent years within the household & personal care industry. Considering Edgewell's strong/challenger position in several attractive categories, we believe if the Company were to be acquired, it would have to be acquired at a premium to average historical transaction multiple/s. We suggest that depending on the level of synergies the acquirer can extract from the acquisition; they might pay at least +10% to +20% premium to the average transaction multiple/s. This suggests an EBITDA multiple of 16.6x-18.1x. Currently, Edgewell is trading below the average historical transaction multiple/s - EV/EBITDA (13.4x vs 15.1x) and EV/Sales (2.5x vs 3.4x).

Top-line synergistic acquirers: Colgate Palmolive, Unilever, SCA, J&J, Reckitt, Henkel and Beiersdorf.

Cost synergistic acquirers: Beiersdorf, Kao, Henkel and Colgate Palmolive.

WEAK RECENT RESULTS & IMPATIENCE PRESENT OPPORTUNITY

The weakening of developing market economies and the depreciation of currencies around the world versus the US Dollar saw investors exit US domiciled multinationals in 2015, including Edgewell. Investors have also been disappointed with Edgewell's below-expectation results and the lack of M&A news since the Separation. The share price has declined ~24% between July 2015 and October 2016. We slowly established a position following the company's separation in July 2015, at an average cost of US\$85.00 (as at 31 October, 2016).

INVESTMENT THESIS - SUMMARY

Disappointing short-term results have caused Edgewell shares to decline since it spun off its battery business in June 2015. There are doubts among investors whether the Company will be able to defend its market position in its key wet shave business with attacks from both sides – Top-end from P&G's Gillette and the low-end from the likes of Dollar Shave Club and Harry's. Unilever's US\$1B acquisition of Dollar Shave Club creates a further complication as to whether the Company will be acquired by one of the larger industry players in the near term. We believe Edgewell will need to participate in the DTC market sooner rather than later. This fast-growing market (currently 8% of US market) is too important to not participate in now. We are concerned that Management is showing complacency and a lack of urgency on this front.

Edgewell is a relatively small company (Market Cap, US\$4.5B) in a highly competitive global personal care industry. Its portfolio of strong brands in attractive categories makes it a likely acquisition target for larger players in the industry. We continue to believe that the Company will ultimately be acquired at a premium over average

transaction multiples – We hypothesize potential suitors are Beiersdorf and Colgate Palmolive. We also hypothesize the lack of M&A news maybe due to management prudence around the two-year restriction (1/7/2015 to 1/7/2017) by the IRS to preserve the tax-free treatment of the Separation.

Irrespective of M&A, we believe the Company's strong free cash flow conversion rate will provide a foundation for the Company to expand (in growth categories and internationally), and to create long-term value through opportunistic share repurchase. International expansion opportunities are significant over time as the Company is currently only in 50 markets globally.

Edgewell is currently trading at a meaningful discount to our estimated takeover target price range of US\$90.87 to US\$113.00 which offers potential upside of +20% to +49% (based the Company's share price of US\$75.74 as at 27 October, 2016).

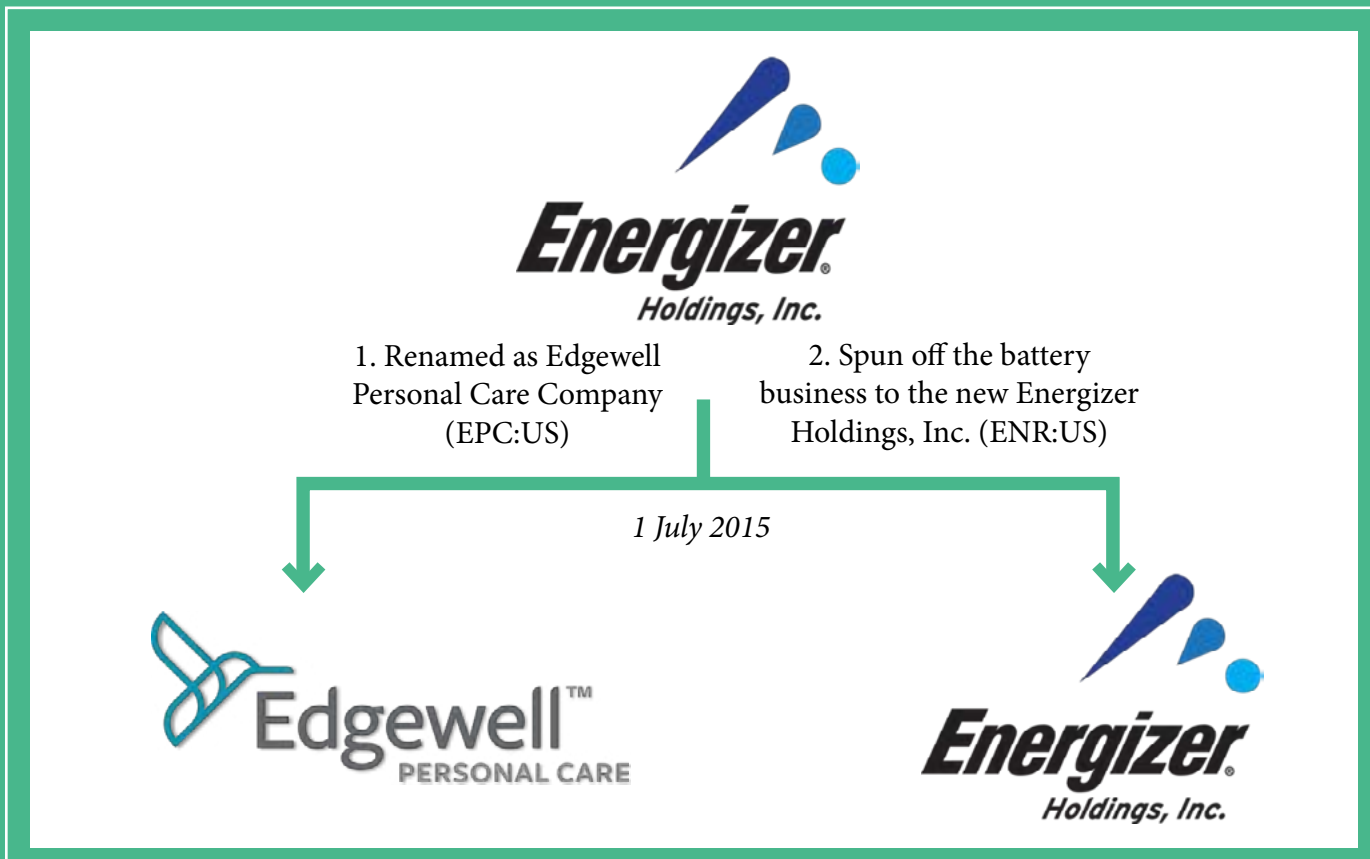
EDGEWELL: A GREAT BUSINESS MODEL...

“you can sleep pretty well at night if you think of a couple billion men with their hair growing on their faces. It is growing all night while you sleep. Women have two legs, it is even better. So it beats counting sheep. And those are the kinds of business (you look for).”

Warren Buffett on the shaving business
15th October 1998



EDGEWELL: FORMED BY A SEPERATION FROM ENERGIZER HOLDINGS INC.



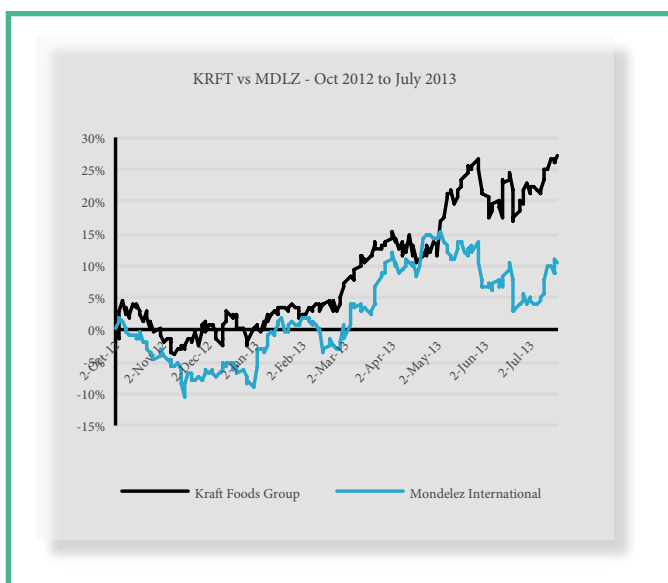
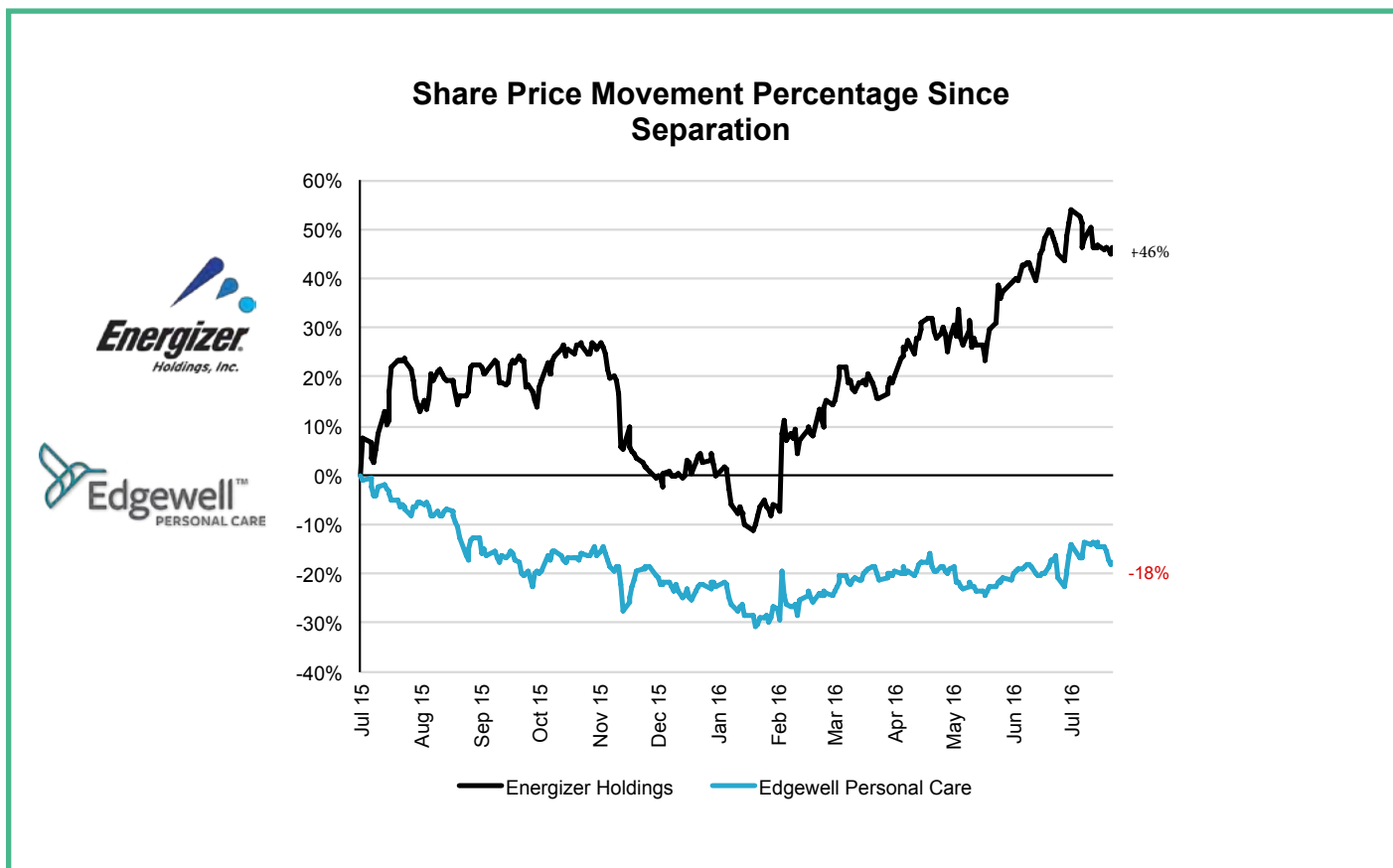
FOLLOWING THE SEPARATION, EACH STANDALONE COMPANY WILL BE ABLE TO:

- Intensify focus on its distinct commercial priorities;
- Allocate its own resources to meet the needs of its business;
- Pursue distinct capital structures and capital allocation strategies; and
- Provide a clear investment thesis and visibility to attract a long-term investor base suited to each business.

AS AN INDEPENDENT ENTITY, WE BELIEVE PERSONAL CARE WILL BE ABLE TO:

- Accelerate growth across all categories;
- Execute a focused global go-to-market strategy;
- Grow through disciplined strategic acquisitions; and
- Generate substantial free cash flow that will enable investments and capital return.

EDGEWELL: SHARE PRICE MOVEMENT POST SEPARATION



**WE HAVE SEEN THIS BEFORE
IN THE SEPARATION OF
MONDELEZ AND KRAFT!**

- No dividends
- Dis-synergies / FY16 – transition year
- Not meeting short-term growth expectations

EDGEWELL: TAX-FREE TREATMENT OF THE SEPARATION

- In its 2015 Annual Report, Edgewell listed the activities which would void its tax-free treatment of the Separation within a two-year period, among them the acquisition of separated Energizer.
- We suspect Edgewell may also wish to wait for the two-year period to end (1 July 2017) to seriously open up merger/acquisition discussions to avoid a potential dispute with the IRS.
- In the meanwhile, the lack of M&A news since the Separation is causing impatient investors to divest the stock.

If the Separation, together with certain related transactions, fails to qualify as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) of the Code, in general, we would recognize taxable gain as if we had sold the New Energizer common shares in a taxable sale for its fair market value and our shareholders who received New Energizer shares in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

Under the tax matters agreement that we entered into with New Energizer, New Energizer may be required to indemnify us against any additional taxes and related amounts resulting from (i) an acquisition of all or a portion of the equity securities or assets of New Energizer, whether by merger or otherwise (and regardless of whether New Energizer participated in or otherwise facilitated the acquisition), (ii) other actions or failures to act by New Energizer or (iii) any of New Energizer's representations or undertakings in connection with the Separation and the distribution being incorrect or violated. Any such indemnity obligations could be material, and there can be no assurance that New Energizer will be able to pay any such indemnification.

Under current law, a spin-off can be rendered taxable to the parent corporation and its shareholders as a result of certain post-spin-off acquisitions of shares or assets of the spun-off corporation. For example, a spin-off may result in taxable gain to the parent corporation under Section 355(e) of the Code if the spin-off were later deemed to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, shares representing a 50% or greater interest (by vote or value) in the spun-off corporation. To preserve the tax-free treatment of the Separation and the distribution, and in addition to New Energizer's indemnity obligation, the tax matters agreement will restrict New Energizer, for the two-year period following the Separation, except in specific circumstances, from: (i) entering into any transaction pursuant to which all or a portion of shares of New Energizer common stock would be acquired, whether by merger or otherwise, (ii) issuing equity securities beyond certain thresholds, (iii) repurchasing New Energizer shares other than in certain open-market transactions, (iv) ceasing to actively conduct the Household Products businesses or (v) taking or failing to take any other action that prevents the distribution and related transactions from qualifying as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) of the Code. There can be no assurance that New Energizer will comply with these restrictions. Failure of New Energizer to satisfy its obligations could have a substantial impact on our tax obligations, consolidated financial condition and cash flows.

EDGEWELL: WEAK RECENT RESULTS & IMPATIENCE PRESENT OPPORTUNITY

- The weakening of developing market economies and the depreciation of currencies around the world versus the US Dollar saw investors exit US domiciled multinationals in 2015, including Edgewell.
- Investors have also been disappointed with Edgewell's below-expectation results and the lack of M&A news since the Separation. The share price has declined ~24% between July 2015 and October 2016.
- We have slowly established our position since the separation in July 2015, at an average cost of US\$85.00*.
- Current share price** = US\$75.74 (Market Capitalisation = US\$4.5B)

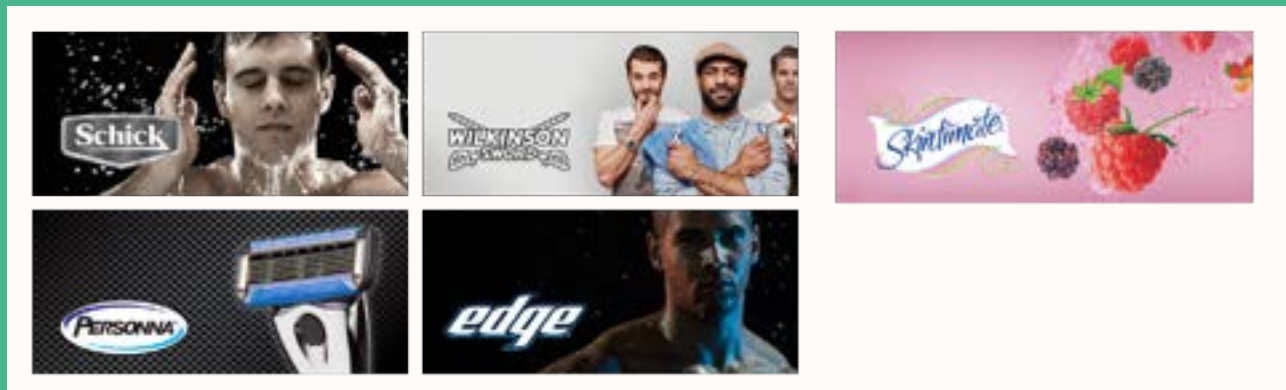


* Elevation Capital Value Fund cost basis as at 31 October 2016

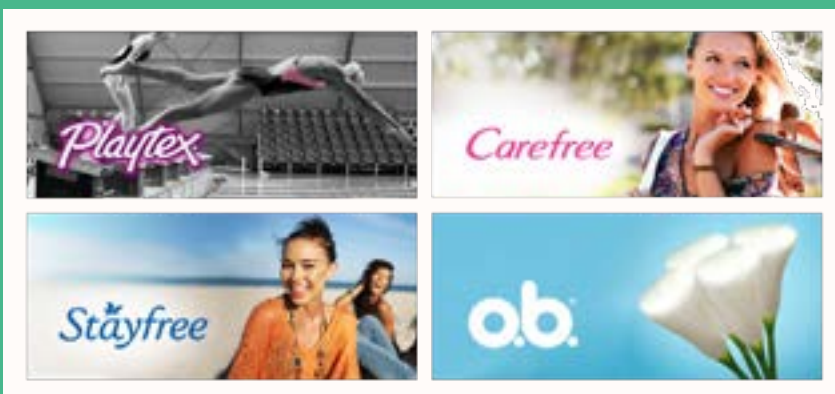
** As at 27 October 2016

EDGEWELL: KEY BRANDS

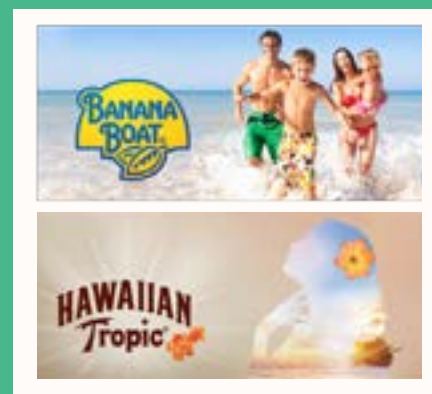
WET SHAVE



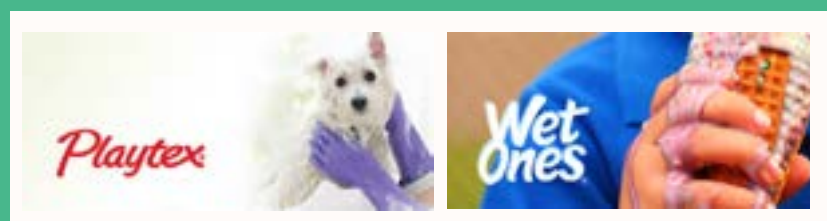
FEMININE CARE



SUN CARE



SKIN CARE



INFANT CARE



PET CARE



EDGEWELL: CHALLENGER POSITION IN PERSONAL CARE

Edgewell has a portfolio of over 25 brands and a broad global footprint in more than 50 countries.

WET SHAVE

#2

(Shaving - Male/Female)

Key Markets:

US, Canada, Japan, Germany

SUN & SKIN CARE

#1

(Sun)

Key Markets:

US, Mexico, Australia

FEMININE CARE

#2/#3

(Tampons/Liners and Pads)

Key Markets:

US and Canada

INFANT CARE

#1

(Diaper Disposal)

Key Markets:

US and Canada

EDGEWELL: HISTORY – FROM EVER READY TO EDGEWELL

1898 Conrad Hubert invents the first handheld flashlight, and forms the American Electrical Novelty & Manufacturing Company.



1905 Conrad Hubert renames his company The American Ever Ready Company.

1914 The American Ever Ready Company becomes part of National Carbon Company.

1917 National Carbon Company merges with Union Carbide to form the Union Carbide and Carbon Company.

1986 Union Carbide sells the Eveready Battery Company to Ralston Purina Company.

1989 The Energizer Bunny is born – his TV debut.



2000 Eveready Battery Company is spun-off from Ralston Purina Company. Energizer Holdings, Inc. is created.

2014 Energizer Holdings, Inc. announces intent to separate the Household Products and Personal Care divisions into two independent, publicly traded companies.



2015 Energizer Holdings, Inc. becomes Edgewell Personal Care Co., spinning off the battery business into the new Energizer Holdings, Inc.



EDGEWELL: PERSONAL CARE BRANDS ACQUISITION HISTORY

2003 Energizer Holdings, Inc. purchases the Schick-Wilkinson Sword business from Pfizer Inc. for US\$930M. Schick-Wilkinson Sword is the second largest manufacturer and marketer of men's and women's wet shave products in the world.



2007 Energizer Holdings, Inc. purchases Playtex Products, Inc. for US\$1.9B. Playtex is a leading manufacturer and marketer in the skin, feminine and infant care industries, with a diversified portfolio of well-recognized branded consumer products.



2009 Energizer Holdings, Inc. acquires the Edge and Skintimate shave preparation business of S.C. Johnson & Son, Inc. for US\$275M.



2011 Energizer Holdings, Inc. is the winning bidder for American Safety Razor (ASR) in bankruptcy court proceedings for a purchase price of US\$301M in cash and the assumption of certain liabilities. ASR is the fourth largest manufacturer and distributor of wet shave products and is a leading supplier of private-label razors and blades.



2014 Energizer Holdings, Inc. acquires Johnson & Johnson's feminine hygiene brands for US\$185M. The deal includes Carefree liners, Stayfree pads and o.b. tampon brands in the U.S., Canada and the Caribbean.



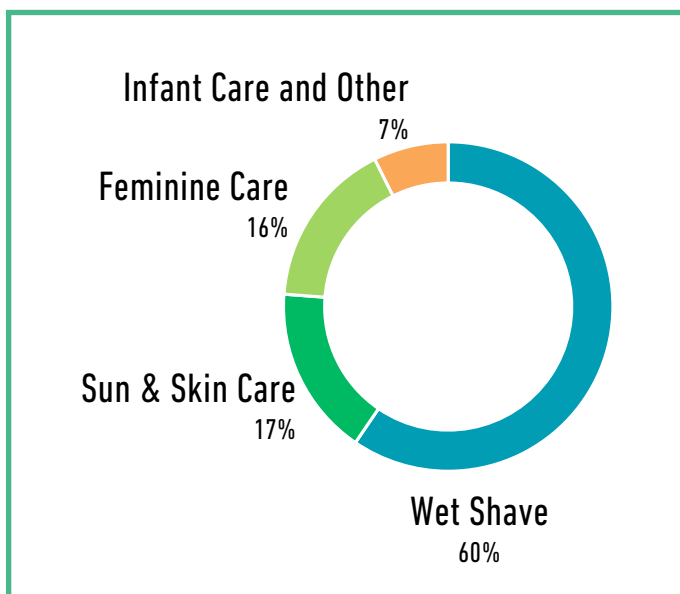
Total acquisition cost for Wet Shave related brands = US\$1.52B

Total acquisition cost for Other brands = US\$2.09B

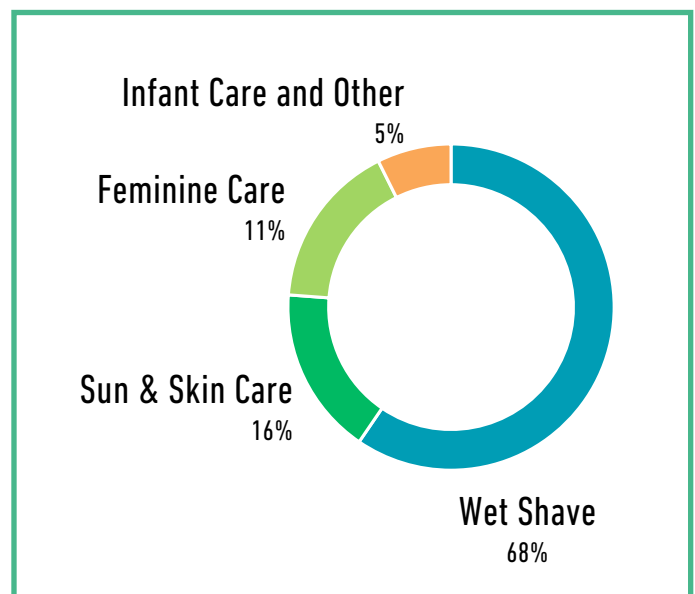
EDGEWELL: BUSINESS SEGMENTS BY REVENUE & OPERATING PROFITS

- The Wet Shave business is the foundation of Edgewell. It generates 60% of the revenue and 68% of the operating profits.
- Additional acquisitions in other segments (particularly pet care) could aid revenue/income diversification, reducing concentration/business risk in the wet shave segment.

REVENUE



OPERATING PROFITS



EDGEWELL: WET SHAVE – 60% OF REVENUE

WETSHAVE

- Historically, the Wet Shave business has been attractive due to its high margin, high barriers to entry, and international growth opportunities.
- Key Brands: Schick, Wilkinson Sword, Edge, Skintimate and Personna.
- Key Markets: U.S., Canada, Japan, Germany, France and UK.
- Key Competitors: Gillette (P&G), BIC Group, Dollar Shave Club (Unilever) and Harry's.
- The Company holds the #2 global market share position in wet shaving.
- In the U.S., the Edgewell Wet Shave business has grown share for five consecutive quarters*.
- **Branded Products** – It manufactures and distributes razor systems (razor handles and refillable blades), and disposable shave products for men and women.
- **Private Label and Value Brands** – It also manufactures, distributes and sells a complete line of private label and value-priced wet shaving disposable razors, shaving systems and replacement blades.
- **Shave Preparation Products** – Including shaving gels and creams.

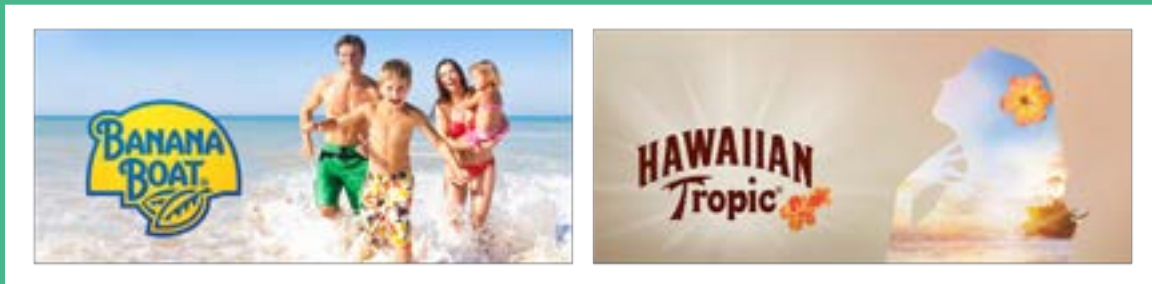


Source: Edgewell 2015 Annual Report
* Edgewell Q3 2016 earnings call transcript – 2 August 2016

EDGEWELL: SUN & SKIN CARE – 17% OF REVENUE

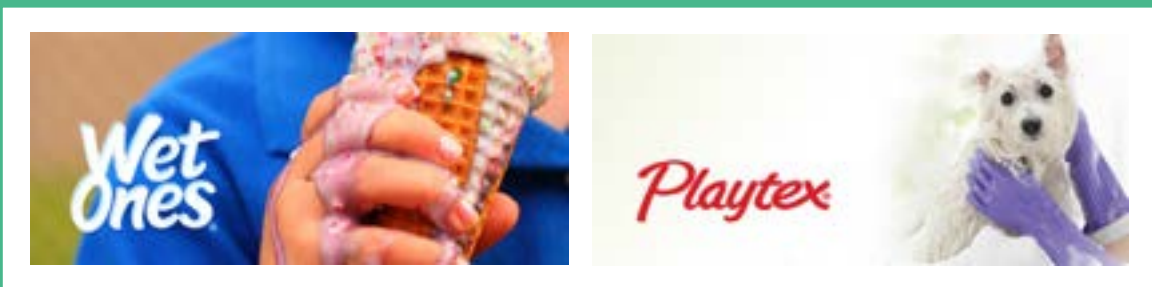
SUN CARE

- An attractive category with international growth opportunities (especially in Latin America & Asia).
- Key Brands: Banana Boat, Hawaiian Tropic
- Key Markets: U.S., Mexico and Australia
- Key Competitors: Bayer AG, Johnson & Johnson
- On a combined basis, the Company holds a leading market share position in the sun care category in the U.S., Mexico and Australia.



SKIN CARE

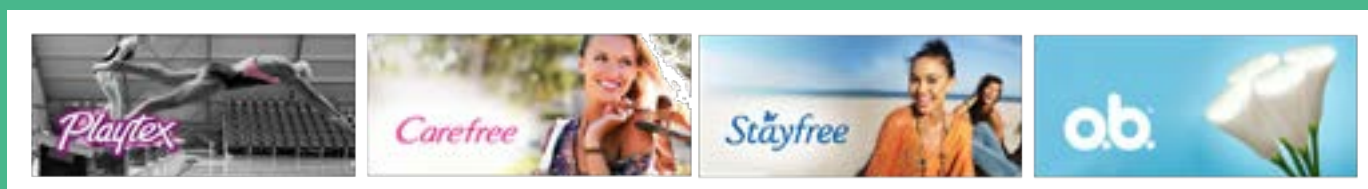
- Key Brands: Wet Ones and Playtex
- Key Markets: U.S.
- Key Competitors: Bayer AG, Johnson & Johnson
- Wet Ones is the leader in the U.S. portable hand wipes category, and Playtex household gloves is the branded household glove leader in the U.S.



EDGEWELL: FEMININE CARE / INFANT CARE / OTHER – 23% OF REVENUE

FEMININE CARE – 16% OF REVENUE

- Meaningful scale, predictable sales and high barriers to entry.
- Key Brands: Playtex, Stayfree, Carefree and o.b.
- Key Markets: North America
- Key Competitors: P&G, Kimberly-Clark
- It is one of the top three manufacturers of feminine care products in North America.



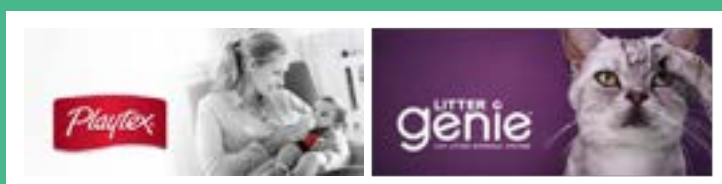
INFANT CARE AND OTHER – 7% OF REVENUE

INFANT CARE

- Key Brand: Playtex
- Key Markets: North America
- Key Competitors: Variety of competitors in a fragmented infant care market.
- Products: Bottles, cups, mealtime products, pacifiers and diaper disposal systems
- The Playtex Diaper Genie brand of diaper disposal systems is the leader in the U.S. diaper pail category.

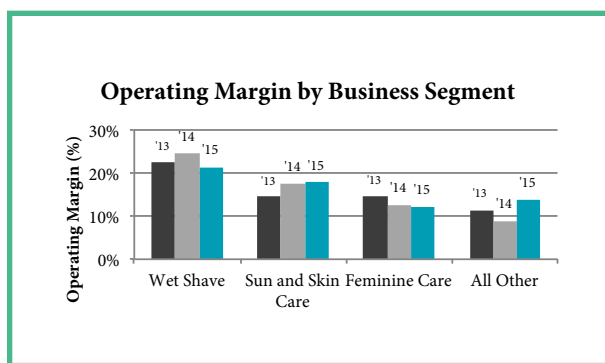
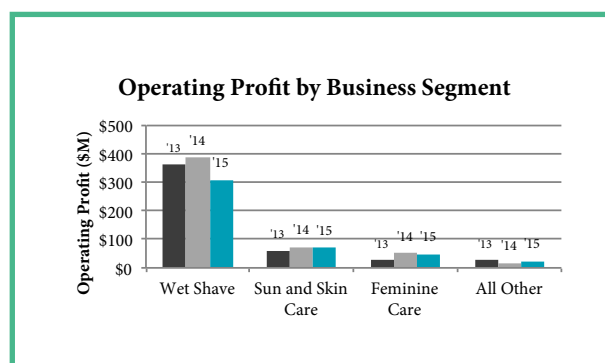
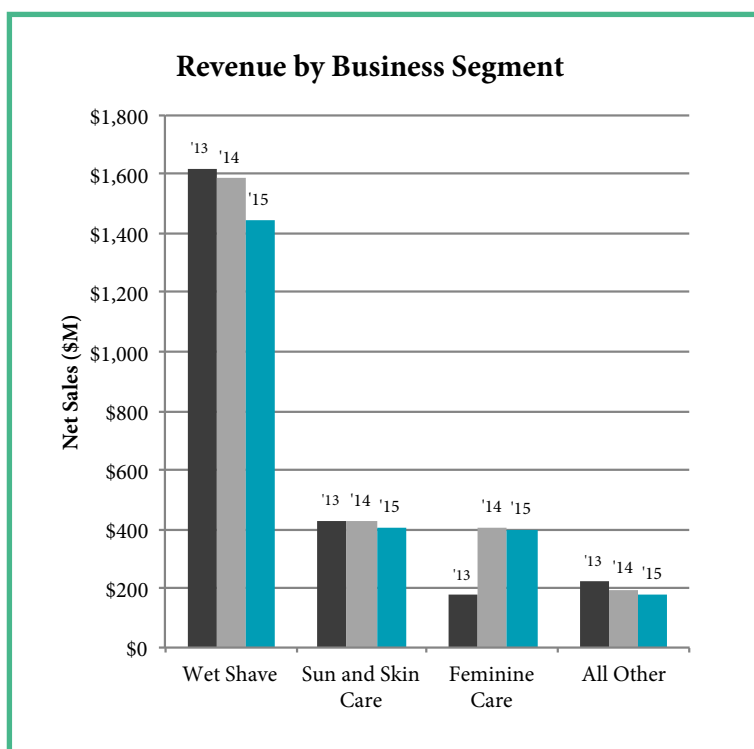
OTHER

- Little Genie - A waste disposal solution for cat owners originating from Edgewell's Diaper Genie technology.
- Industrial Blades Business – Sold on 1 September 2015.



EDGEWELL: BUSINESS SEGMENT REVENUES, OPERATING PROFIT & MARGINS

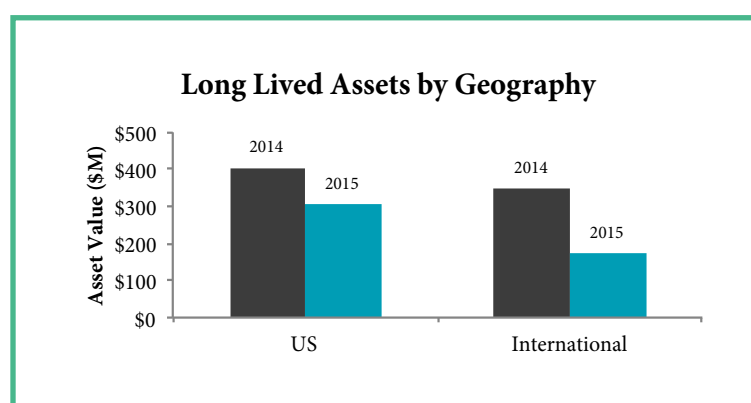
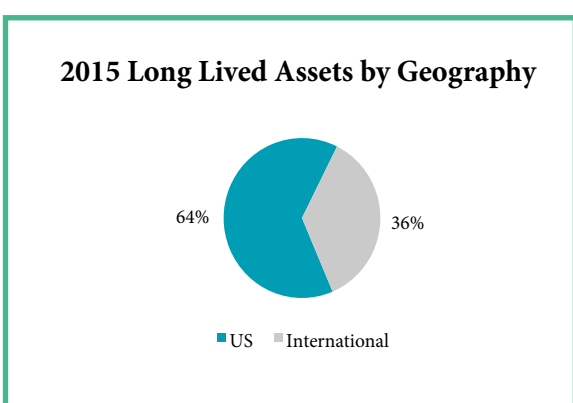
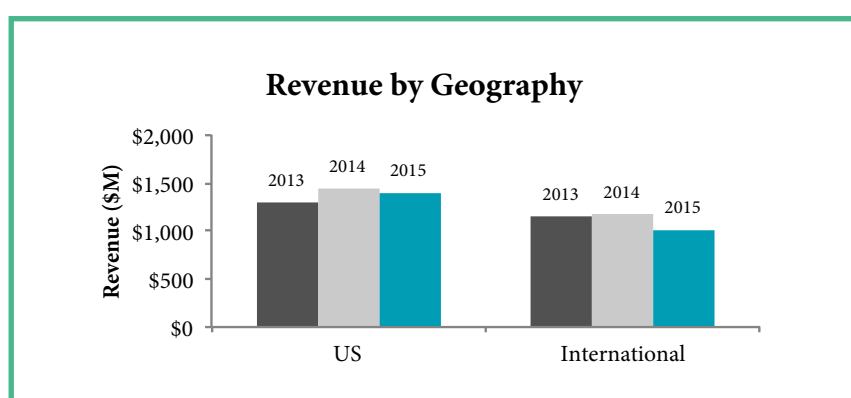
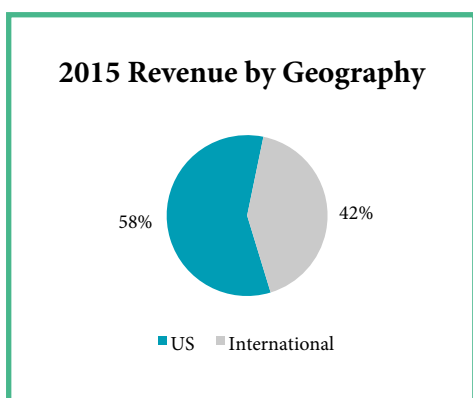
- The four reporting business segments show different revenue and margin characteristics.
- Wet Shave is by far the most important business for the Company. It currently generates 60% of revenue, and 68% of operating profit. However, it is facing increased competition from existing competitors and new entrants.
- The other three business segments combined generate 40% of revenue, and 32% of operating profits.



Source: Thomson Reuters Eikon data as at 20 July 2016

EDGEWELL: GEOGRAPHIC SEGMENT REVENUES & ASSETS

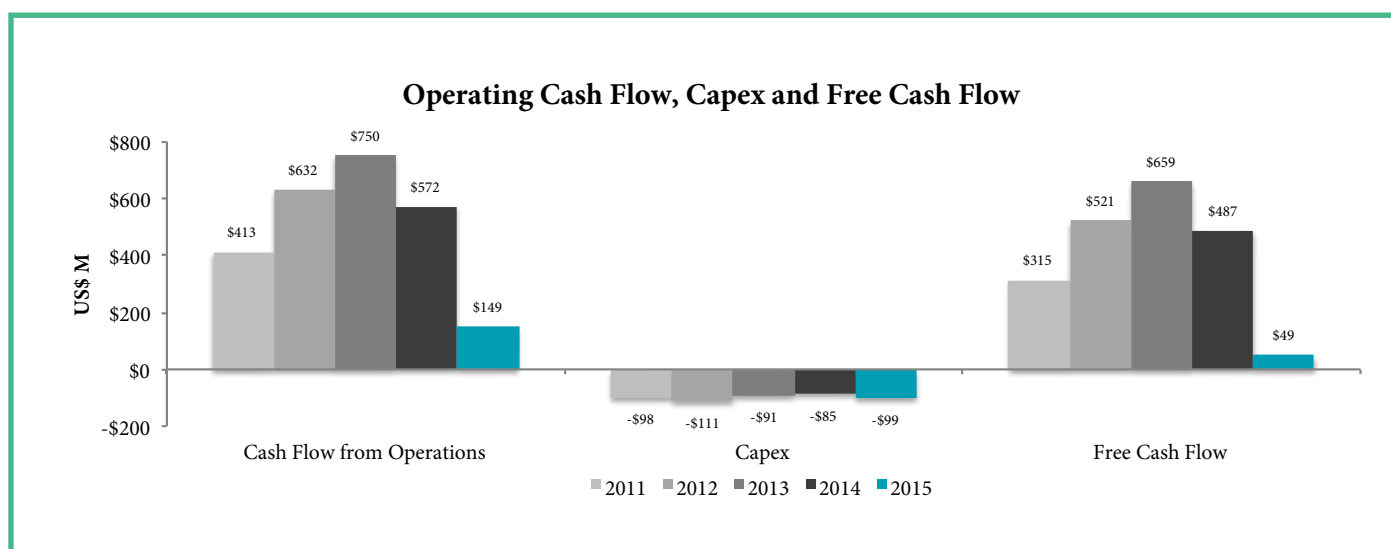
- The core of the Company’s revenue is generated from developed markets, with the US as its largest market (58% of 2015 Revenue).
- The strengthening USD has continued to have a negative translation effect on Edgewell’s international business since 2014. The international business is 42% of revenue in 2015, compared to 47% in 2013.
- We believe in the long run, currency should have a neutral effect on the Company’s long-term results.
- Furthermore, we believe Management is correct in focusing on the international growth opportunities for its core businesses. However, it will be a long and less profitable road versus the US market for Edgewell due to its limited distribution networks.



Source: Thomson Reuters Eikon data as at 20 July 2016

EDGEWELL: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- The Company has historically generated significant free cash flow* due to its low capex requirements.
- The cash expenditures relating to the separation and related debt restructuring are the main reasons for the significant decline in cash flow from operations in FY2015.
- We note that the FY2015 cash flow statements were not required to be adjusted for discontinued operations. Therefore, cash flow figures for FY2015 includes nine months of activity for the Household Products business (i.e., Energizer).
- For FY2016, the Company stated that**:
 1. “due to the seasonality of our business and the timing of our fiscal year end, operating cash is expected to be primarily generated in the last half of the fiscal year”.
 2. “For the full year, we expect to generate positive operating cash flow, and made our full-year objective of approximately 100% free cash flow conversion”.
- Looking forward, the Company expects Capex to be in the range of 2%-3% of sales.



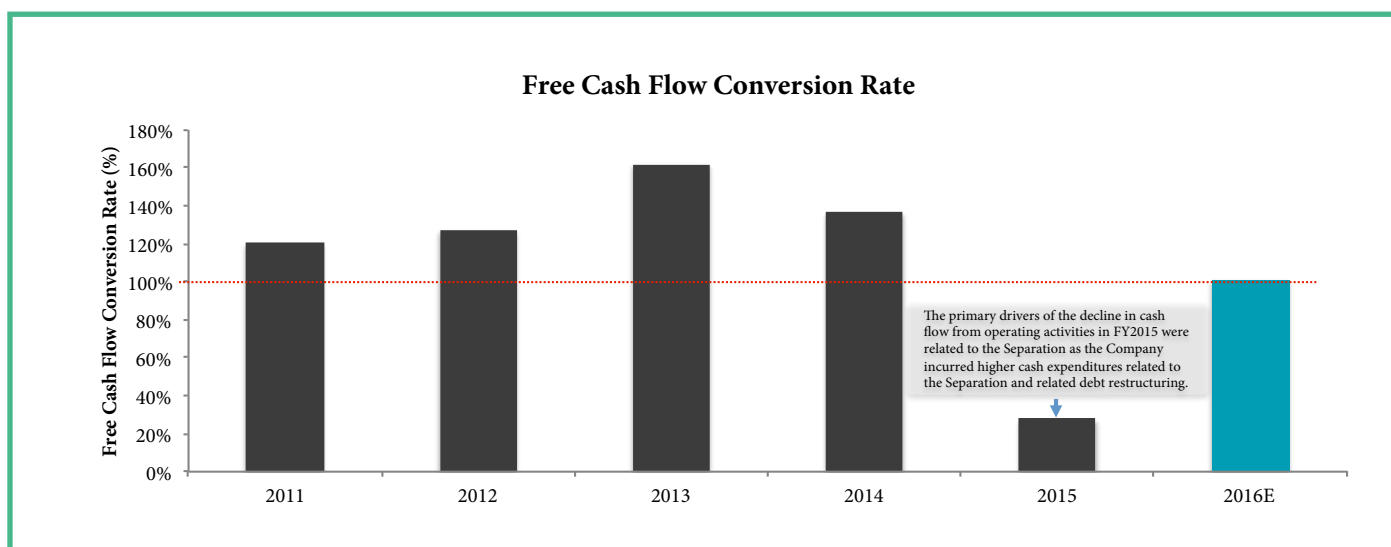
Data Source: Thomson Reuters Eikon as at 27 September 2016

* Free Cash Flow (FCF) is defined as cash from operating activities minus capital expenditures

** Edgewell Q2 2016 Earnings Call – 29 April 2016

EDGEWELL: FREE CASH FLOW CONVERSION RATE

- 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) Conversion Rate* to help gauge the resources available for strategic opportunities such as undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance.
- Historically, the Company has been able to achieve 100%+ FCF Conversion Rate. After the 1 July 2015 Separation, Management reiterated its goal to “maintain a free cash flow conversion rate of 100% or better” so it can further reinvest in the business, return value to shareholders and pursue a disciplined approach to acquisitions.
- As mentioned on the previous page, Management is expecting to achieve its full-year objective of approximately 100% free cash flow conversion for FY2016.



* Free Cash Flow Conversion Rate (Efficiency) is defined as Free Cash Flow / Net Income. This measure illustrates how efficient the business is at generating free cash flow versus its reported / accounting net income.

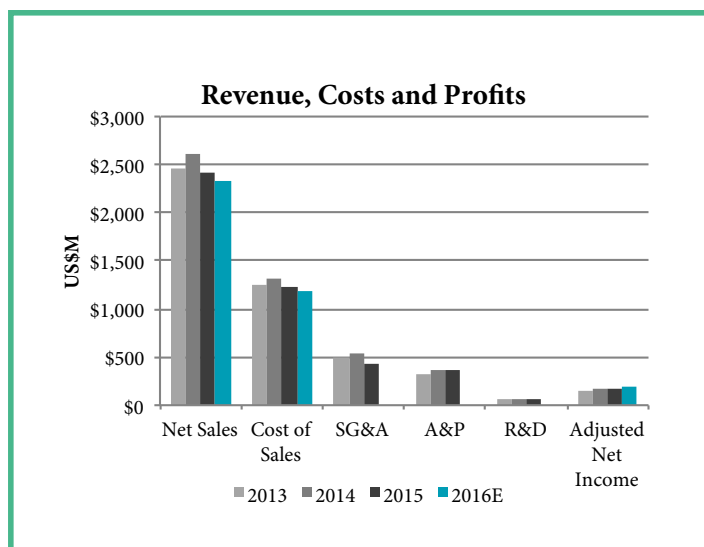
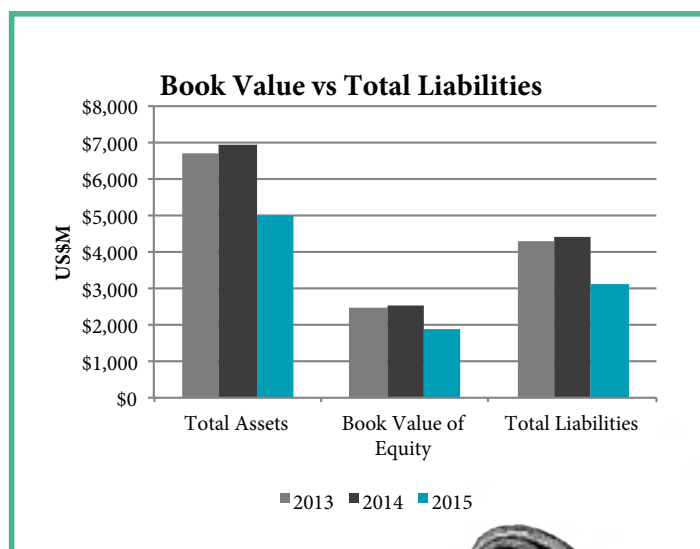
EDGEWELL: FINANCIAL POSITION

BALANCE SHEET

- The chart below shows the effect of Separation on the Balance Sheet in 2015*.
- Management commented that “We believe our leverage levels are manageable due to our margin structure and ability to generate free cash flow, which will accelerate over the next few quarters”**.

INCOME STATEMENT

- The figures in the chart are adjusted for the Separation*.
- Revenue is expected to decline again in FY2016 due to continued “Go-to-Market” changes.
- Adjusted Net income is estimated to be in the range of US\$176M – US\$185M, slightly higher than FY2015 (US\$175M) on an adjusted basis.



* Edgewell 2015 Annual Report

** Edgewell Q2 2016 Earnings Call – 29 April 2016

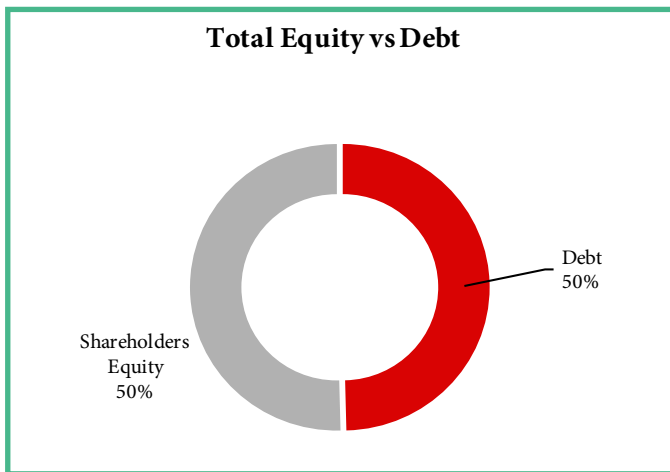
*** Thomson Reuters Eikon as at 27 September 2016

EDGEWELL: DEBT & TERM STRUCTURE

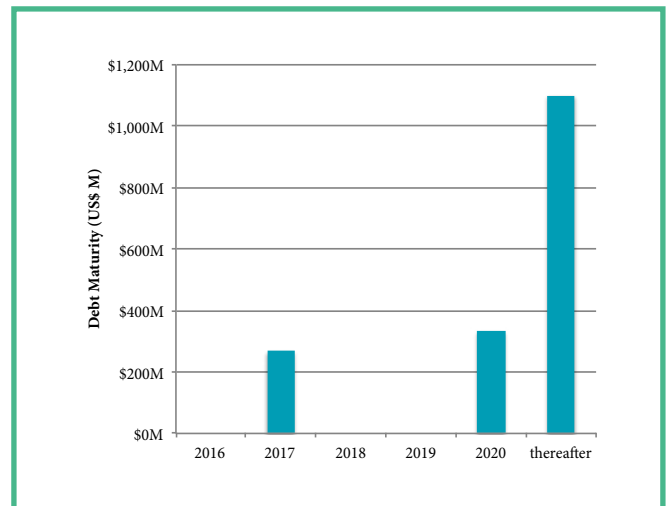
DEBT

- Debt makes up half of Edgewell’s capital structure, which is higher than its industry peers as a result of US\$1.72B of Total Debt being left with the Company on Separation.
- Currently, the Company has Total Debt of US\$1.86B (Net Debt = US\$1.17B)*, with 65% of the debt maturing after 2020.
- Edgewell has a S&P Long-term Issuer Rating of BB+, and Moody’s Long-term Issuer Rating of Ba2.

TOTAL EQUITY VS DEBT



DEBT MATURITY PROFILE**



* Q3 FY2016 - as at 30 June 2016. Cash approximately US\$692M

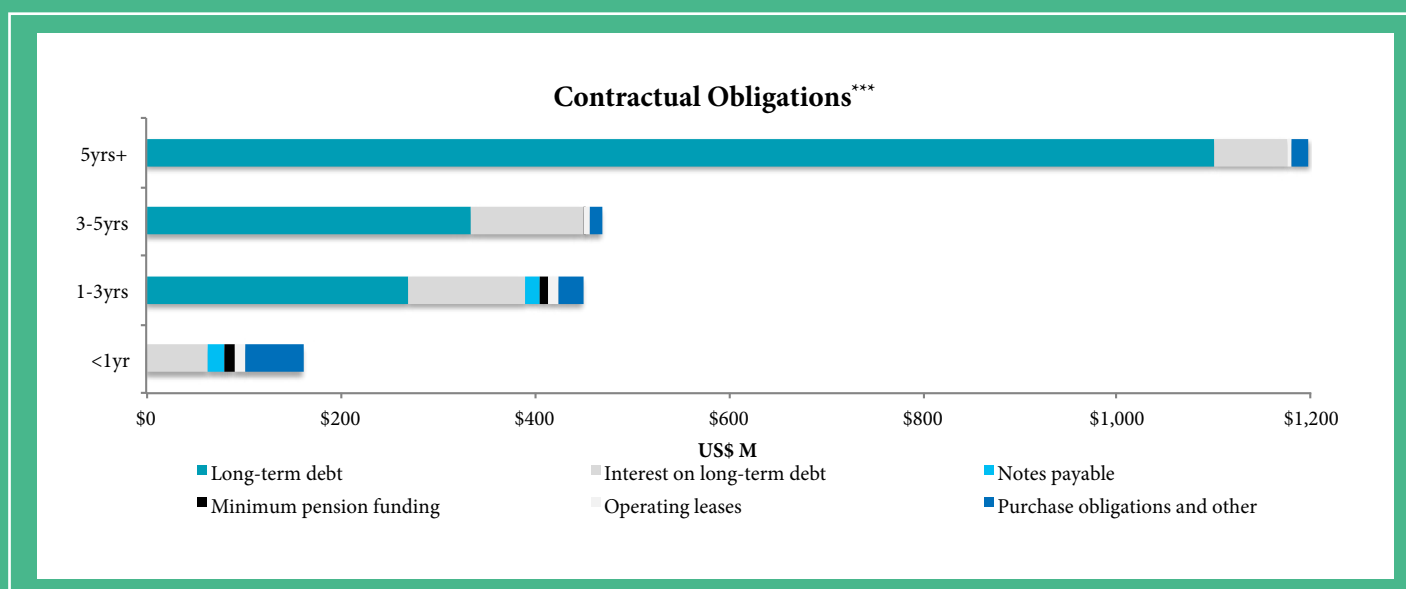
** Edgewell 2015 Annual Report

EDGEWELL: CONTRACTUAL OBLIGATIONS

- We consider the Company's contractual obligations to be at reasonable levels, assuming a 100%+ free cash flow conversion rate and based on Company's guided FY2016 Adjusted EPS of US\$3.45-US\$3.60* and improvement thereon.
- Approximately 53% of the contractual obligations are due in more than five years. While 75% of the contractual obligations are long-term debt principal payments that can be paid by issuance of new debt instruments (assuming functioning credit markets).

PENSION LIABILITIES

- The minimum required contribution to pension plans in FY2016 is US\$9.2M.
- The Company made a discretionary contribution of US\$100M in Q2 FY2016.
- Currently, Pension and Other Retirement Benefits liability totals US\$128.3M** (<3% of Market Cap).



* Edgewell Q3 2016 Earnings Call – 2 August 2016

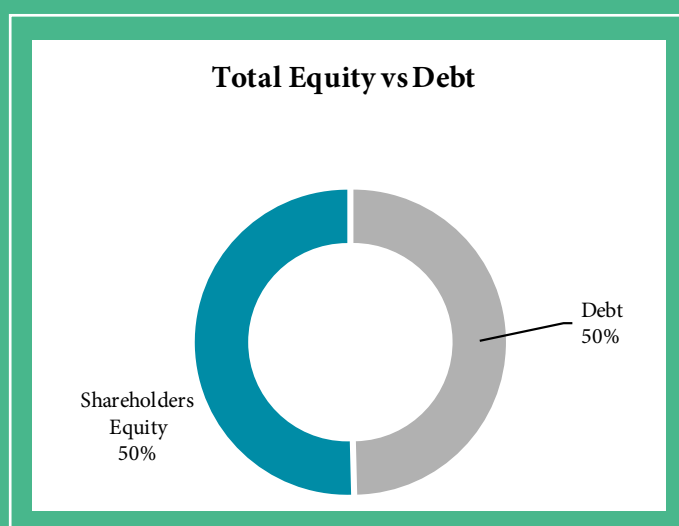
** As at 30 June 2016 *** Source: Edgewell 2015 Annual Report

EDGEWELL: EQUITY OWNERSHIP

EQUITY

- Number of Shares Outstanding = 58,950,886*
- Total Equity = US\$1.87B**
- Market Capitalisation = US\$4.5B*
- The Company has a relatively concentrated shareholder register. The Top-10 Shareholders represent 43% ownership of the Company (Top-50 Shareholders represent 70%+ ownership).

TOTAL EQUITY VS DEBT



TOP 10 SHAREHOLDERS

Top 10 Shareholders*	%*
The Vanguard Group, Inc.	7.67%
BlackRock Institutional Trust Company, N.A.	6.72%
Gabelli Funds, LLC	5.41%
Putnam Investment Management, L.L.C.	3.71%
JP Morgan Asset Management State	3.70%
Street Global Advisors (US)	3.67%
APG Asset Management	3.36%
The London Company	3.34%
BlackRock Financial Management, Inc.	3.27%
T. Rowe Price Associates, Inc.	2.29%
Total	43.14%



* Data Source: Thomson Reuters Eikon as at 27 October 2016

** As at 30 June 2016

EDGEWELL: CAPITAL RETURN POLICY FOR THE NEW EDGEWELL

DIVIDENDS

- The Company eliminated the quarterly dividends following the separation from Energizer.
- The priority of uses of cash is first business development, followed by M&A and then share repurchase, although a dividend policy is reviewed by the Board regularly.

SHARE REPURCHASE PROGRAM

- The Board authorised share repurchases of up to 10 million shares on 21 May 2015.
- In the first nine months of fiscal 2016, the Company completed share repurchases of more than 1.4 million shares for US\$114.5 million (average cost = ~US\$80*), including nearly half a million shares in the third quarter.
- We believe in the short term, opportunistic share repurchasing will be the main facility for Management to return capital and create long-term value for shareholders.

“WE DO NOT CURRENTLY EXPECT TO DECLARE OR PAY DIVIDENDS ON OUR COMMON SHARES FOR THE FORESEEABLE FUTURE. INSTEAD, WE INTEND TO RETAIN EARNINGS TO FINANCE THE GROWTH AND DEVELOPMENT OF OUR BUSINESS, FOR OUR SHARE REPURCHASE PROGRAM AND FOR WORKING CAPITAL AND GENERAL CORPORATE PURPOSES.”

EDGEWELL 2015 ANNUAL REPORT

EDGEWELL: COMPANY CULTURE / WORKPLACE

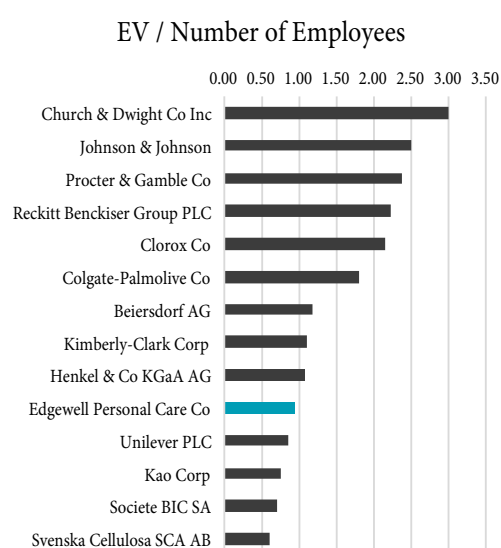
- We investigated Glassdoor (www.glassdoor.com) where employees and former employees anonymously review companies and their management.
- Edgewell is going through a transitional period which we believe is reflected in the online reviews. Additionally, the uncertainty/possibility of being acquired may be adding to the uncertainty & anxiety evident among its employees.

The screenshot displays the Glassdoor profile for Edgewell Personal Care. At the top, the Glassdoor logo is on the left, and navigation links for 'Jobs', 'Companies', 'Salaries', and 'Interviews' are on the right. A search bar is located below the navigation. The company logo and name 'Edgewell Personal Care' are prominently displayed. Below the company name, there are statistics: 38 Reviews, 20 Salaries, 6 Interviews, 16 Benefits, and 117 Jobs. An 'Overview' tab is selected. The 'Edgewell Personal Care Overview' section provides key company information: Website (www.edgewell.com), Size (5001 to 10000 employees), Type (Company - Public (EPC)), Revenue (\$2 to \$5 billion (USD) per year), Headquarters (Saint Louis, MO), Founded (2015), Industry (Manufacturing), and Competitors (Unknown). A mission statement follows: 'Mission: At Edgewell, we believe that everyone, from shareholder to consumer, benefits when we nurture passion, encourage curiosity, and inspire experimentation in our work. That's why we not only encourage our colleagues to take on new projects, roles, and responsibilities ...'. The 'Edgewell Personal Care Reviews' section shows a 2.7 star rating, a 45% recommendation to a friend, and a 66% approval of the CEO, David Hatfield, who has 14 ratings.

EDGEWELL: EMPLOYEE EFFICIENCY

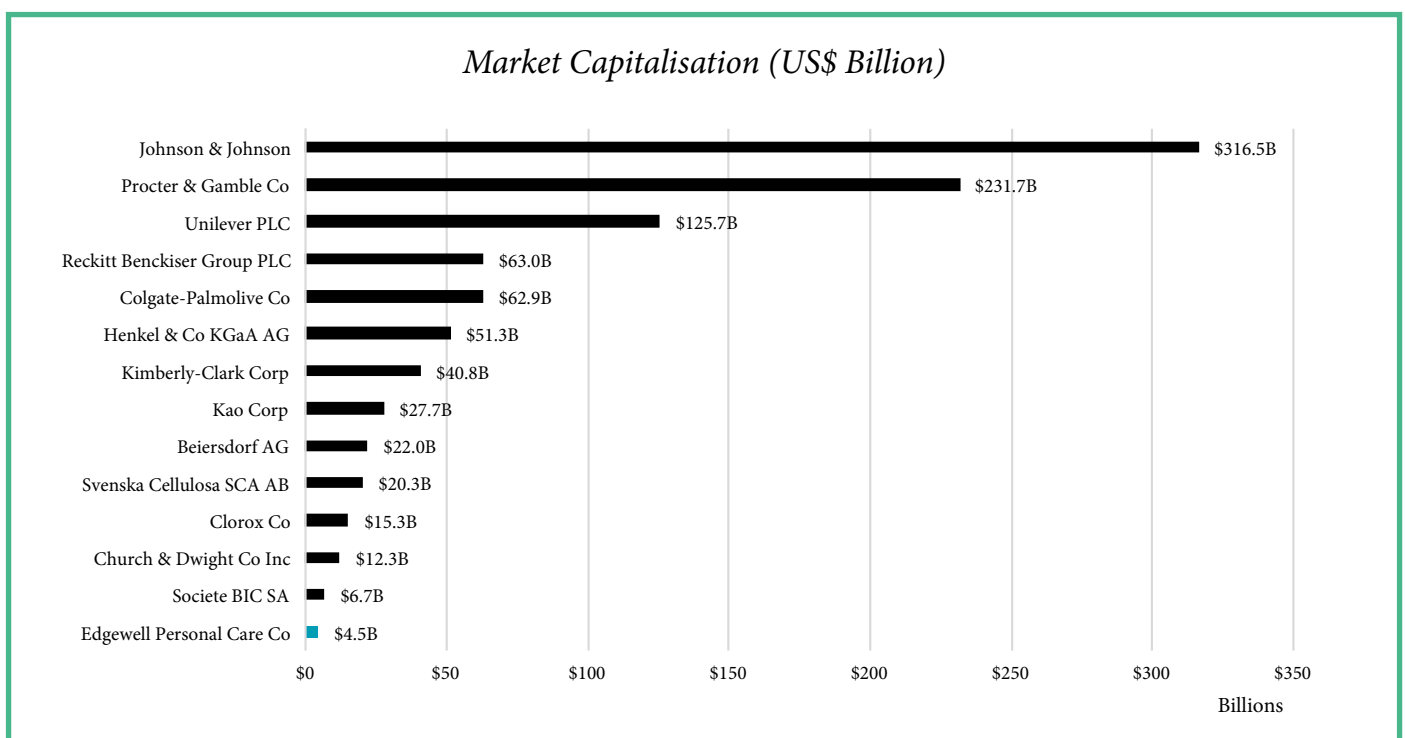
- We utilise the Enterprise Value to Employee Ratio to measure how worker-intensive a business or an industry is. We also use this metric to compare businesses within the same industry to rank their relative efficiency.
- Currently, Edgewell has a below average EV/Employee ratio. We believe there is still significant inefficiency in its operations. Edgewell's core businesses should support a higher EV/Employee ratio.
- If Management is unable to improve operational efficiency, it should consider selling the Company to a larger entity who (it is reasonable to expect) could benefit from economies of scale.

Company Name	Current EV (USD M)	Number of Employees	EV / Number of Employees
Church & Dwight Co Inc	\$13,167	4,400	2.99
Johnson & Johnson	\$316,541	127,100	2.49
Procter & Gamble Co	\$250,459	105,000	2.39
Reckitt Benckiser Group PLC	\$76,999	34,700	2.22
Clorox Co	\$17,205	8,000	2.15
Colgate-Palmolive Co	\$68,552	37,900	1.81
Beiersdorf AG	\$20,909	17,806	1.17
Kimberly-Clark Corp	\$47,845	43,000	1.11
Henkel & Co KGaA AG	\$52,851	49,250	1.07
Edgewell Personal Care Co	\$5,648	6,000	0.94
Unilever PLC	\$144,894	168,921	0.86
Kao Corp	\$24,619	33,026	0.75
Societe BIC SA	\$6,583	9,373	0.70
Svenska Cellulosa SCA AB	\$26,776	44,000	0.61
Median			1.14
Mean			1.52



EDGEWELL: COMPARABLE COMPANIES – MARKET CAPITALISATION

- Edgewell is one of the smaller players in the global personal care products industry - Market Capitalisation only US\$4.5B (as at 27 October 2016).
- However, its strong/challenger position in several attractive categories make it an attractive acquisition target to larger players in the industry.
- We note the recent news of Unilever acquiring Dollar Shave Club for a “speculated” purchase price of US\$1B, which has a turnover of US\$152M in 2015, provides us a new perspective into the potential opportunities / risks to Edgewell which had net sales of US\$2.4B in 2015.



EDGEWELL: COMPARABLE COMPANIES – MARGINS AND RETURNS (1)

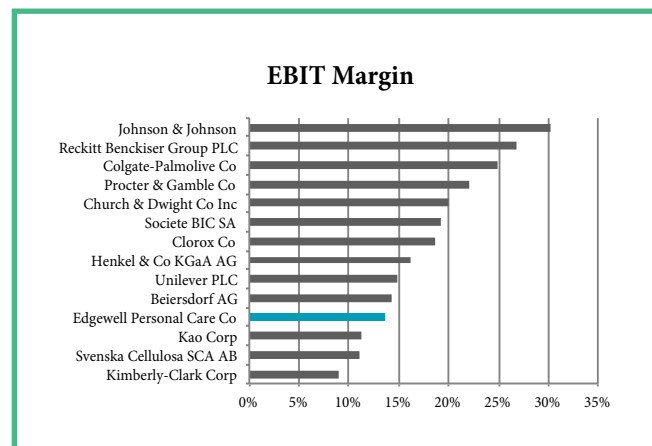
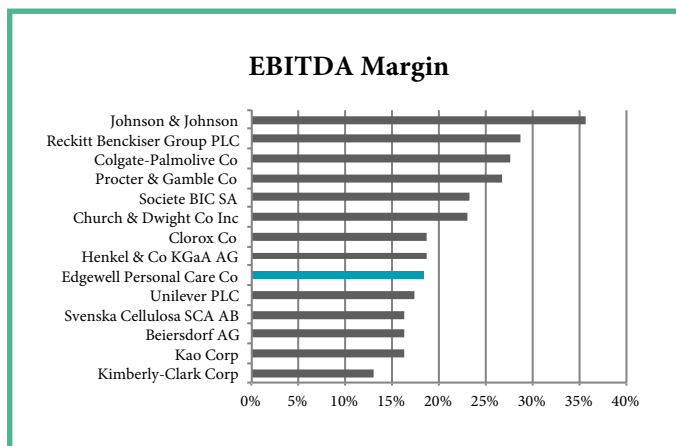
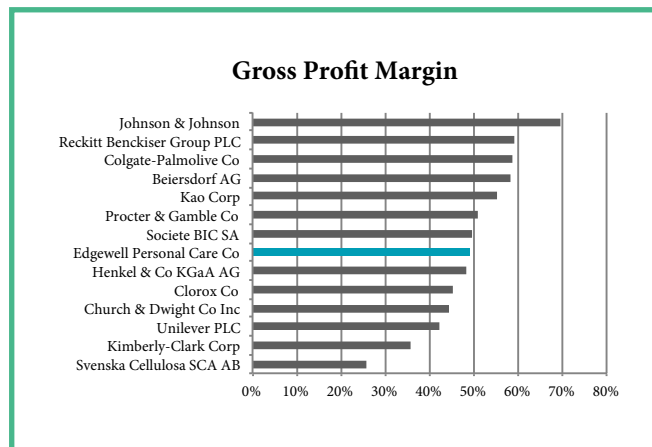
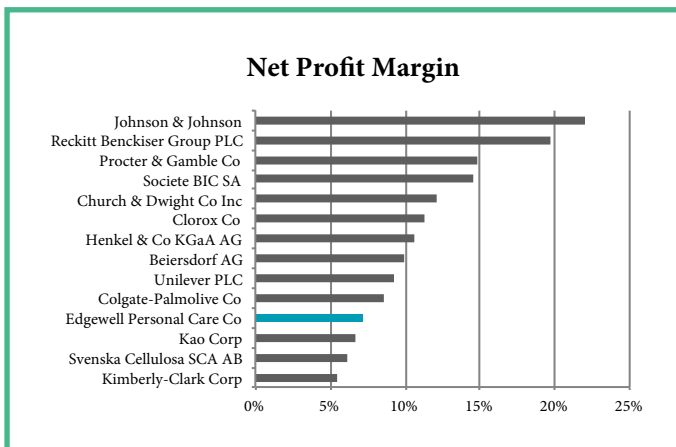
- The separation of Energizer and Edgewell in July 2015 means the FY2015 and FY2016 financials are less useful for gauging the Edgewell's absolute and relative performance.
- We recognise that overall, Edgewell's margins are below average when compared to its peers. This can be partially attributed to the fact that the Company is still going through its go-to-market and functional realignment initiatives around the world necessitated due to the Separation.
- It is interesting to note that BIC, another important player in the shaving business has maintained respectable margins. However, we attribute this to BIC's high margin lighter business.

Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA
Kimberly-Clark Corp	5.4%	35.6%	12.9%	8.9%	1,129.7%	6.0%
Svenska Cellulosa SCA AB	6.1%	25.9%	16.3%	11.1%	10.2%	4.9%
Kao Corp	6.7%	55.3%	16.2%	11.2%	17.4%	7.9%
Colgate-Palmolive Co	8.6%	58.7%	27.6%	24.8%	0.0%	12.2%
Unilever PLC	9.2%	42.2%	17.3%	14.8%	33.2%	10.5%
Beiersdorf AG	9.9%	58.3%	16.3%	14.3%	16.5%	10.2%
Henkel & Co KGaA AG	10.6%	48.3%	18.6%	16.1%	15.3%	9.1%
Clorox Co	11.2%	45.1%	21.3%	18.4%	312.3%	14.9%
Church & Dwight Co Inc	12.1%	44.5%	22.9%	19.9%	22.8%	9.5%
Societe BIC SA	14.5%	49.7%	23.2%	19.2%	0.0%	13.2%
Procter & Gamble Co	14.8%	50.7%	26.7%	22.0%	16.5%	7.8%
Reckitt Benckiser Group PLC	19.6%	59.1%	28.6%	26.8%	23.2%	11.3%
Johnson & Johnson	22.0%	69.3%	32.6%	27.3%	0.0%	11.7%
Edgewell Personal Care Co	7.2%	49.1%	18.3%	13.5%	9.4%	3.6%
Median	10.6%	49.7%	21.3%	18.4%	16.5%	10.2%
Mean	11.6%	49.4%	21.6%	18.1%	122.8%	9.9%



Data Source: Thomson Reuters Eikon as at 27 October 2016 (Data = Last Fiscal Year)
 * Based on Company's FY2015 Adjusted Net Income

EDGEWELL: COMPARABLE COMPANIES – MARGINS AND RETURNS (2)



Data Source: Thomson Reuters Eikon as at 27 October 2016 (Data = Last Fiscal Year)
 * Based on Company's FY2015 Adjusted Net Income

EDGEWELL: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Because of the historically steady nature of the industry, and the high levels of cash flow, FMCG businesses have relatively high levels of financial leverage.
- Edgewell is one of the companies with higher levels of debt relative to industry peers. The debt was left with the Company on Separation of Energizer. This is reflective of the Company's cash generative businesses and its ability to reduce debt and resume returning cash to shareholders quickly. Note that 65% of the debt has maturity dates post 2020, the Company is not under pressure in the short term.
- The elimination of dividends following the separation from Energizer should assist debt reduction, and allow the Company to grow without the need for additional debt funding.

Company Name	Net Debt To EV	Net Debt To EBITDA	Quick Ratio
Societe BIC SA	Net Cash	Net Cash	2.45
Johnson & Johnson	Net Cash	Net Cash	1.88
Beiersdorf AG	Net Cash	Net Cash	1.77
Kao Corp	Net Cash	Net Cash	1.46
Henkel & Co KGaA AG	Net Cash	Net Cash	0.82
Reckitt Benckiser Group PLC	3.3%	66.1%	0.44
Church & Dwight Co Inc	6.6%	106.3%	0.72
Procter & Gamble Co	6.8%	97.9%	0.94
Colgate-Palmolive Co	7.8%	117.1%	0.91
Unilever PLC	9.8%	135.2%	0.42
Clorox Co	11.2%	155.3%	0.67
Kimberly-Clark Corp	14.3%	178.9%	0.55
Svenska Cellulosa SCA AB	15.3%	177.3%	0.66
Edgewell Personal Care Co	20.9%	235.0%	1.96
Median	8.8%	126.2%	0.82
Mean	9.4%	129.3%	1.05

EDGEWELL: COMPARABLE COMPANIES – VALUATION/S

- After a ~25% stock price decline since its separation from Energizer, Edgewell is now trading at a similar valuation to several of its global peers on some of the key valuation metrics below.
- It is our view that Edgewell remains a likely acquisition target and therefore should be valued based on historical industry transaction/M&A multiples which have been at a premium to the current peer group averages.

Company Name	Forward P/E	P/S	EV/ EBITDA	P/B	Gross Div Yield
Kimberly-Clark Corp	19.0	2.2	22.2	136.4	3.2%
Reckitt Benckiser Group PLC	24.5	5.7	18.2	7.2	2.0%
Clorox Co	21.5	2.7	16.2	51.4	2.6%
Beiersdorf AG	26.8	3.0	15.9	4.3	0.9%
Church & Dwight Co Inc	27.0	3.6	15.1	6.1	1.4%
Colgate-Palmolive Co	25.2	4.1	14.7	-223.9	2.7%
Procter & Gamble Co	22.2	3.5	14.0	4.0	3.1%
Unilever PLC	21.5	2.2	13.6	7.5	3.3%
Henkel & Co KGaA AG	18.4	2.8	13.3	3.7	1.3%
Societe BIC SA	20.6	2.7	12.6	3.5	2.7%
Kao Corp	23.0	2.0	12.5	4.3	1.5%
Johnson & Johnson	17.2	4.4	11.6	4.4	2.0%
Svenska Cellulosa SCA AB	19.7	1.6	11.0	2.7	2.2%
Edgewell Personal Care Co	21.8	1.9	13.4	2.4	0.0%
Median	21.5	2.8	14.0	4.3	2.2%
Mean	22.0	3.1	14.7	0.9	2.2%

Data Source: Thomson Reuters Eikon as at 27 October 2016 (Consensus Earnings Forecasts and Last Fiscal Year)
B = Book Value, S = Sales, Div = Dividend

EDGEWELL: KEY COMPETITORS

GLOBAL SHAVING PRODUCTS

- P&G/Gillette – Leading company in the global wet shave segment
- BIC Group – Competes primarily in the disposable segment
- Dollar Shave Club (acquired by Unilever) / Harry's – Direct Sell/Online



The Company estimates that, collectively, the Gillette brand and Schick-Wilkinson Sword business represent 80% of the global wet shave market.

FEMININE CARE

- P&G
- Kimberly-Clark



SUN & SKIN CARE

- Bayer AG
- Johnson & Johnson



INFANT CARE

- Variety of competitors in the fragmented infant care market.



FREE YOUR SKIN™

SchickNZ

EDGEWELL: UNILEVER + DOLLAR SHAVE CLUB

INTENSIFIED COMPETITION

Unilever declared its intention to get into the shaving business when it acquired Dollar Shave Club for a “speculated” US\$1B price tag recently. If Unilever does not acquire Edgewell, it will result in a more intensive competitive landscape going forward, as the “disruptive” Dollar Shave Club now has the backing and support of Unilever, a global giant (Market Cap = GBP 103B) in food, home and personal care products, with a distribution network to more than 190 countries.



UNILEVER & MALE GROOMING*

- Global Male Grooming is a ~US\$40B market (Shaving business ~US\$9B).
- Unilever is number one in Global Male Grooming (excl. Shaving).
- Unilever CFO noted that the purchase of Dollar Shave Club (“DSC”) allows Unilever to study DSC’s subscription model which provides a high degree of engagement, personal contact and lock-in to a very fragmented market. This subscription model could then be applied to Unilever’s other products.
- We suggest that Unilever’s acquisition of DSC also provides it with optionality to get into the shaving business in a larger scale quickly - i.e., acquiring Edgewell, at the same time holding off other large personal care players who were thinking of getting into this space through acquiring Edgewell, as they would now have to face not just the existing large players such as P&G/Gillette and BIC, but also Unilever.



* Unilever CFO's comments at Bernstein 13th European Strategic Decisions Conference

EDGEWELL: KEY RISKS (1)

NEGATIVE MACRO TRENDS IN KEY CATEGORY – MEN'S SHAVING SYSTEM (~30% OF WET SHAVE REVENUE)

Edgewell, and other players in the Wet Shave market have faced/are facing negative macro trends in recent years:

- **Extended Blade Usage** – Improved technology, longevity communication, higher prices and more cost-sensitive consumers.
- **Decreased Shaving Frequency** – Acceptance of facial hair in the workplace, etc.
- **Declining Weekly Penetration** – Consumers turn to disposable blades and other alternatives.

We believe some of these trends/factors are correlated to consumer confidence in the US and globally (e.g., increased frugality) and hence are cyclical. It is harder to predict cultural change (acceptance/non-acceptance of facial hair) and technology advances (in materials science).



<http://www.nytimes.com/2014/11/30/opinion/sunday/why-ceos-are-growing-beards.html>



<http://gillette.com/en-us/products/razors-trimmers-and-blades/mach3-razors/mach3-razor>

EDGEWELL: KEY RISKS (2)

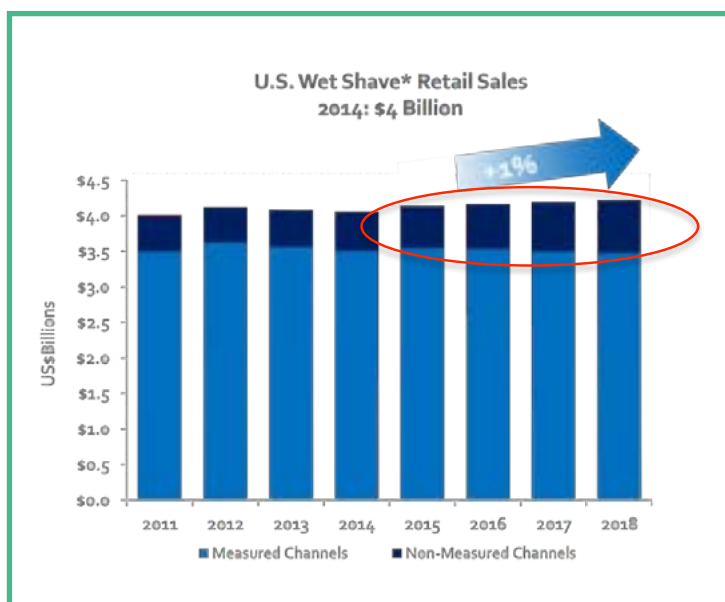
CHANNEL SHIFTING

The rise of new (e-commerce based) competitors such as Dollar Shave Club and Harry's has "disrupted" the two major players in the wet shave market – P&G and Edgewell.

Investors have questioned whether the widely claimed "economic moat" around the wet shave business is indeed still wide and defensible for both P&G and Edgewell versus the fast growing online channel.

We note that Dollar Shave Club has not turned profit since 2012. Edgewell Management commented recently that "We actually sell to many shave clubs around the world... And when you look at them generally, they are not profitable while we actually enjoy pretty good margins through them"*.

P&G/Gillette chose to fight back with its own version of a shave club in June 2015. In the meantime, Edgewell has decided against the idea, as it has "concerns about the profitability of existing direct-to-consumer models but we are committed to serving consumers wherever they choose to shop. So we are developing a direct-to-consumer (DTC) proposition that is scalable, that is differentiated, that it builds brand equity and that complements our channel strategy. So, we are developing that. If and when we can meet those hurdles, we will consider entering DTC" *.



We believe Edgewell will need to participate in the DTC market sooner rather than later. This fast growing market (8% of US market) is too important to not participate in now.

*Wet Shave: Razors & Blades + Shave Prep

Source: Measured: Nielsen Scantrack, Non-Measured: Nielsen Panel. 2015-2018 Edgewell Projected

EDGEWELL: KEY RISKS (3)

CUSTOMER CONCENTRATION

From the Company's 2015 Annual Report:

- **Wal-Mart** – accounted for 24% of the Company's FY2015 Net Sales
- **Target** – accounted for 11.3%, 11.9% and 12.3% of the Company's FY2015 Net Sales for Sun/Skin Care, Feminine Care and All Other segments.

Although Amazon is not currently mentioned by the Company, we believe as the world's largest online retailer, it is a very important online channel for the Company's future sales strategy. However, Amazon is famous for its aggressive pricing policy and buying power which compresses suppliers' margins.

LEVERAGE

Edgewell is a relatively small company (Market Cap = US\$4.5B) in the highly competitive global personal care industry. At the same time it is more leveraged than many of its global competitors post separation from Energizer. This creates additional risk in many aspects of its business. For example, it is hard for the Company to pursue its growth strategy without eliminating dividends. Also, the Company might miss out on important growth opportunities (e.g., mergers & acquisitions) when it has to focus on reducing debt/s, and is not able to access additional funding. Lastly, with a levered balance sheet, the Company is potentially less likely to be acquired.



Edgewell introduced Amazon Dash buttons for six of its brands in early 2016

EDGEWELL: KEY OPPORTUNITIES (1)

INTERNATIONAL GROWTH OPPORTUNITIES

Edgewell has a global footprint in only 50 countries (vs P&G/Unilever in 180+ markets).

Currently, the Company derives 42%* of its revenue from its international business, which is the faster growing market segment for all its products.

As the Company continues execution of its go-to-market changes, the simplified and streamlined distribution model will also allow the Company to enter new markets with greater agility and lower costs.

EXAMPLE: WET SHAVE CATEGORY

As an example, the all important but extremely competitive Men's Wet Shave in the U.S. represents only 9% of global wet shave category sales**. Edgewell is seeking growth opportunities in the other 91% (i.e., internationally), and other adjacent product segments.



Source: Edgewell Investor Kickoff 2015 Presentation – 2 June 2015

* Edgewell 2015 Annual Report
** Measured by Nielsen

EDGEWELL: KEY OPPORTUNITIES (2)

E-COMMERCE AND DIRECT-TO-CONSUMER

As noted in the Risks section, we are concerned with the Company's lack of proactive engagement/participation in the fast growing online/e-commerce market, especially with regard to Direct-to-Consumer solutions. We therefore eagerly await the Direct-to-Consumer proposition that the Company is currently investigating.

We see parallels in the media sector where content creators are restricted in their ability to execute aggressive Direct-to-Consumer strategies due to pre-negotiated contracts with distribution partners. This is in contrast to new players who have been able to aggressively expand Direct-to-Consumer solutions, quickly gaining market share.

Disruptive businesses are challenging market fundamentals - we urge Management to review their current business strategy with a focus toward innovation in an effort to remain competitive.

Edgewell Personal Care unveils six Amazon Dash Buttons

chaindrugreview.com/edgewell-personal-care-unveils-six-amazon-dash-buttons/

By Chain Drug Review

March 31, 2016

SHELTON, Conn. — Edgewell Personal Care has made products for six of its brands available via Amazon Dash Buttons.

Edgewell said Thursday that Amazon Prime members can now order Schick Hydro, Schick Hydro Silk, Playtex Sport, Carefree, Stayfree and Litter Genie products by pressing the brands' Amazon Dash Buttons.



EDGEWELL: KEY OPPORTUNITIES (3)

COST-CUTTING

The Company has suffered from cost increases due to the dis-synergies after the separation from Energizer Holdings. However, Management expects the cost saving initiatives / restructuring programmes announced should more than cover the additional corporate and SG&A costs caused by the separation, and target +50bps of operating margin expansion per annum going forward.

REDIRECT CAPITAL TO INVEST IN NEW GROWTH CATEGORIES

With Edgewell's low capex requirements in its core business and forecast high free cash flow conversion rate, we believe the Company can fund itself to invest in growing categories in the personal care products industry.

REINSTATING DIVIDEND

We suggest the stock will be rerated if/when Edgewell reinstates its dividend. The Company's high free cash flow conversion rate makes it an ideal candidate to be a consistent dividend paying stock. Reinstating its dividends would allow institutional investors which require the stock to pay a dividend to invest in the Company.



EDGEWELL: KEY OPPORTUNITIES (4)

OPPORTUNISTIC SHARE REPURCHASE PROGRAMME

- Historically, the Management of Energizer Holdings has been able to create significant value for its shareholders, as demonstrated in the chart below.
- Apart from the regular quarterly dividends (now eliminated), the Company has effectively utilised opportunistic share repurchases to add considerable value to long-term shareholders.
- We believe opportunistic share repurchases currently presents the best way to create long-term value for investors at a time when Management has an asymmetric information advantage with regard to the Company's short to medium-term future.



Successful History

Energizer Holdings: Successful History of Opportunistic Share Repurchase

- 57m shares repurchased at weighted average cost of \$49 per share
- \$2.8 Billion in cash returned to shareholders through buy back

Source: Edgewell Investor
Kickoff 2015 Presentation – 2 June 2015

EDGEWELL: KEY OPPORTUNITIES (5)

ACQUISITION TARGET – ATTRACTIVE CATEGORIES IN PERSONAL CARE / POTENTIAL STRONG TOP-LINE/COST SYNERGIES

Edgewell is an attractive acquisition target for larger players in the industry due to its strong/challenger position in several attractive categories in personal care and the potential strong top-line/cost synergies.

EXHIBIT 14: Based on our analysis, we believe the most likely acquirers of EPC include Unilever, Henkel, J&J, and SCA

	Potential Acquirer	Financial Capacity	Topline Synergies (International Distribution Story)	Tone of Management around M&A	Additional Comments
1	Unilever	High	Could more than double EPC sales	Open to M&A	Strong topline synergies and more focused on Personal Care
2	Henkel (even after Sun Products acquisition)	High	Some opportunity	Open to M&A	Mixed out on several acquisitions and opportunities
3	J&J	High	Some opportunity	Open to M&A	Could buy EPC, put back together its Feminine Care business and sell to SCA, get some benefits from Razors, Sun Care, Infant Care
4	SCA	Medium	Could more than double EPC sales	Open to M&A	SCA may be more interested in Feminine Care business which is only ~10% sales; meanwhile, other categories are seeing pressure
5	Colgate	High	Could more than double EPC sales	Less open to M&A	"Should" do deal as it has best international exposure; but management seems less open to M&A
6	Reckitt	High	Some opportunity	Open to M&A, although we believe more interested in DTC	
7	Beiersdorf	High	Some opportunity	Less open to M&A	Management seems less open to M&A, also conducting limited transactions historically
8	Kao	High	Limited	Open to M&A	We believe Kao could be interested, but international distribution story seems weaker than others
9	C&D	Low	Limited	Open to M&A, although EPC is size fit	Don't have the international distribution; may get some cost cutting
10	Clorox	Low	Limited	Open to M&A, although EPC is size fit	Don't have the international distribution; may get some cost cutting; does not match CLX's M&A criteria (e.g., EPC's business is much larger than CLX's target criteria of \$50-\$700m in sales)

Source: Bernstein Analysis

EDGEWELL: M&A SYNERGY BENEFITS ANALYSIS

- Since the Separation, Edgewell has struggled to grow its top-line, and to contain its costs.
- We believe one of the larger players in the industry may consider an acquisition of Edgewell due to the potential cost synergies and top-line synergies (or both).

COST SYNERGIES

- Potential acquirers (without stretching their debt levels) are: Beiersdorf, Kao, Henkel and Colgate

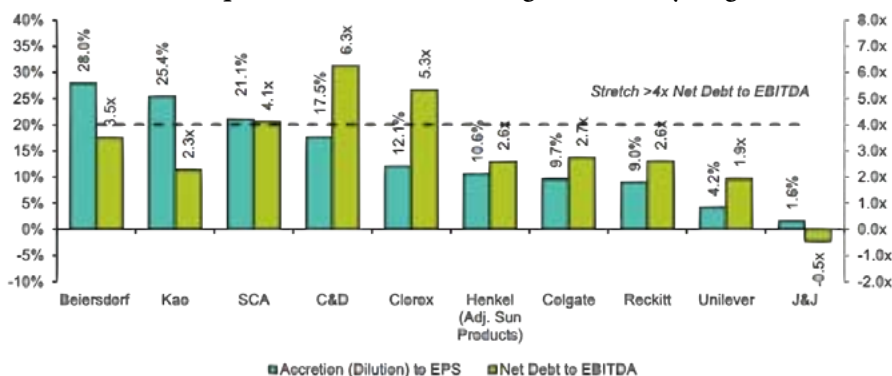
TOP-LINE SYNERGIES

- Potential acquirers: Colgate, Unilever, SCA, J&J, Reckitt, Henkel and Beiersdorf

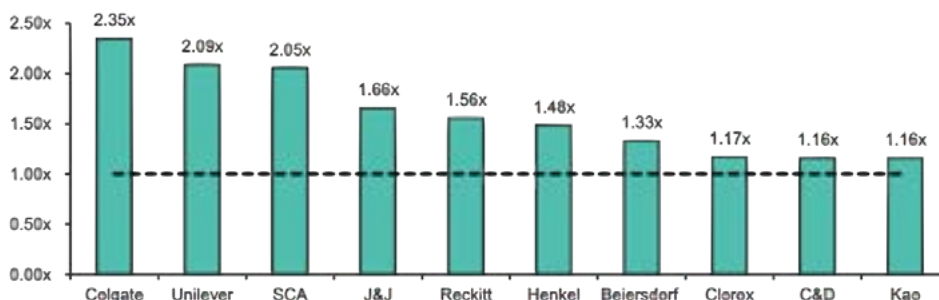
=> Beiersdorf and Colgate are the two companies that feature on both lists.

They would generate the greatest synergies via an acquisition of Edgewell. However, we note that these two companies historically focus on organic growth opportunities versus M&A.

Accretion to EPS and Impact on Acquirer's Leverage from All-Debt Financed Acquisition of EPC Assuming 10% Cost Synergies Alone*



Potential Lift in Edgewell's Sales from International Distribution*



* Bernstein Research (Who Might Buy Edgewell? A Closer Look At Company Fundamentals and M&A - 19 July 2016)

EDGEWELL: EDGEWELL M&A VALUATION SCENARIOS

US
\$90.87

**Conservative Takeover
(Estimate #1) Scenario:**

15.1x EV/FY16E EBITDA
(Average Selected Transaction Precedents*)

US
\$101.86

**Conservative Takeover
(Estimate #2) Scenario:**

16.6x EV/FY16E EBITDA
(10% Premium over Average Selected
Transaction Precedents)

US
\$108.11

**Optimistic Takeover
(Estimate #1) Scenario:**

3.7x EV/FY16E Sales
(40% Discount to P&G/Gillette and
Unilever/DSC transaction multiples Precedents*)

US
\$113.00

**Optimistic Takeover
(Estimate #2) Scenario:**

18.1x EV/FY16E EBITDA
(20% Premium over Average Selected Transaction
Precedents based on Synergies Precedents*)



Schick

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EDGEWELL: ELEVATION CAPITAL – CONCLUSION

- Disappointing short-term results have caused Edgewell shares to decline since it spun off its battery business in June 2015.
- There are doubts among investors whether the Company will be able to defend its market position in its key wet shave business with attacks from both sides – Top-end from P&G’s Gillette and the low-end from the likes of Dollar Shave Club and Harry’s.
- Unilever’s US\$1B acquisition of Dollar Shave Club creates a further complication as to whether the Company will be acquired by one of the larger industry players in the near term.
- We believe Edgewell will need to participate in the DTC market sooner rather than later. This fast growing market (currently 8% of US market) is too important to not participate in now. We are concerned that Management is showing complacency and a lack of urgency on this front.
- Edgewell is a relatively small company (Market Cap = US\$4.5B) in a highly competitive global personal care industry. Its portfolio of strong brands in attractive categories makes it a likely acquisition target for larger players in the industry. We continue to believe that the Company will ultimately be acquired at a premium over average transaction multiples – We suggest the most suitable suitors are Beiersdorf and Colgate.
- We also hypothesise the lack of M&A news maybe due to management prudence around the two-year period (from 1/7/2015 to 1/7/2017) restriction from IRS to preserve the tax-free treatment of the Separation.
- Irrespective of M&A, we believe the Company’s strong free cash flow conversion rate will provide a foundation for the Company to expand (in growth categories and internationally), and to create long-term value through opportunistic share repurchase. International expansion opportunities are significant over time as the Company is currently only in 50 markets globally.
- Edgewell is currently trading at a meaningful discount to our estimated takeover target price range which offers potential upside of +20% to +49%.

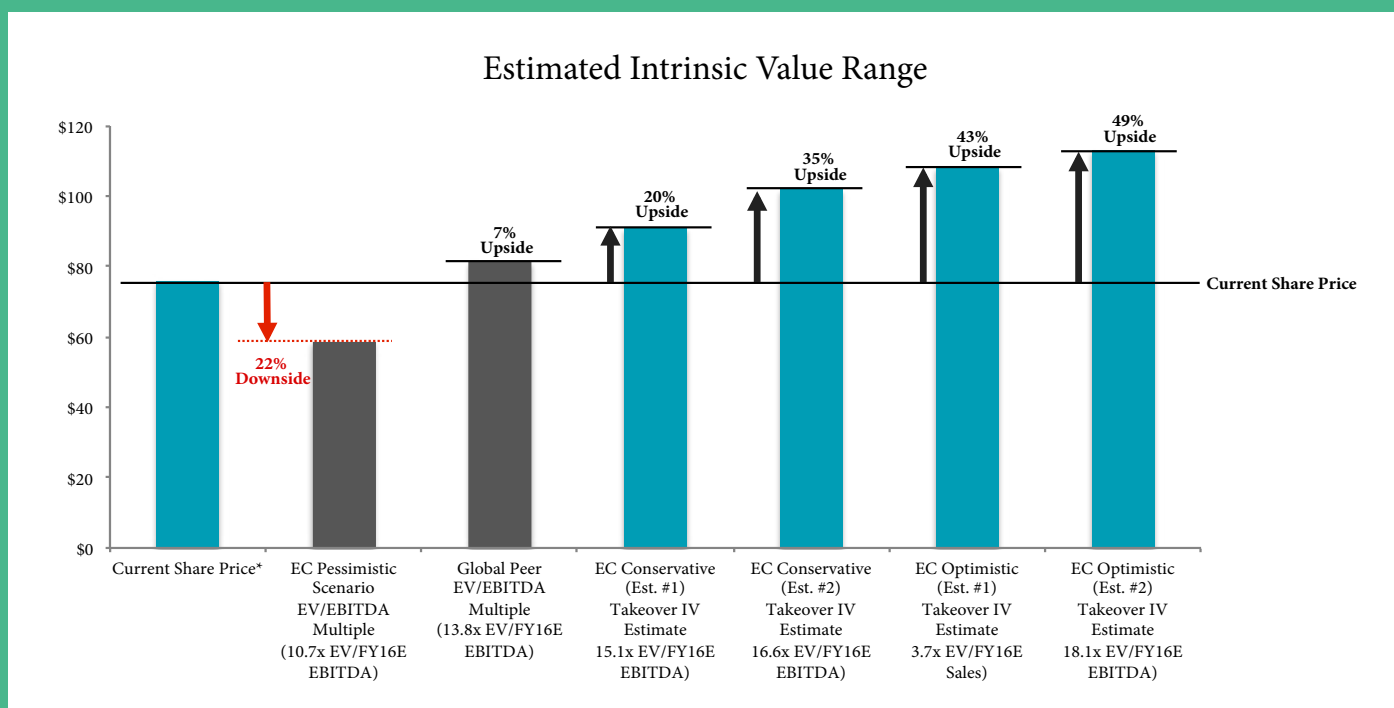


EDGEWELL: ELEVATION CAPITAL – ESTIMATED INTRINSIC VALUE RANGE

US\$58.78 – US\$113.00 PER SHARE

Downside/Upward Potential Range:

-22% - +49%



* Current Share Price = US\$75.74 (as at 27 October 2016)

** Based on FY2016 estimated EBITDA, and EV/EBITDA Multiple of 10.7x, which is a 20% discount to the current EV/EBITDA Multiple of 13.4x

*** Based on FY2016 estimated EBITDA, and EV/EBITDA Multiple of 13.8x, which is the Median EV/EBITDA Multiple of selected global peers

**** Based on FY2016 estimated EBITDA, and EV/EBITDA Multiple of 15.1x, which is the average takeover EV/EBITDA multiple of selected M&A transaction precedents

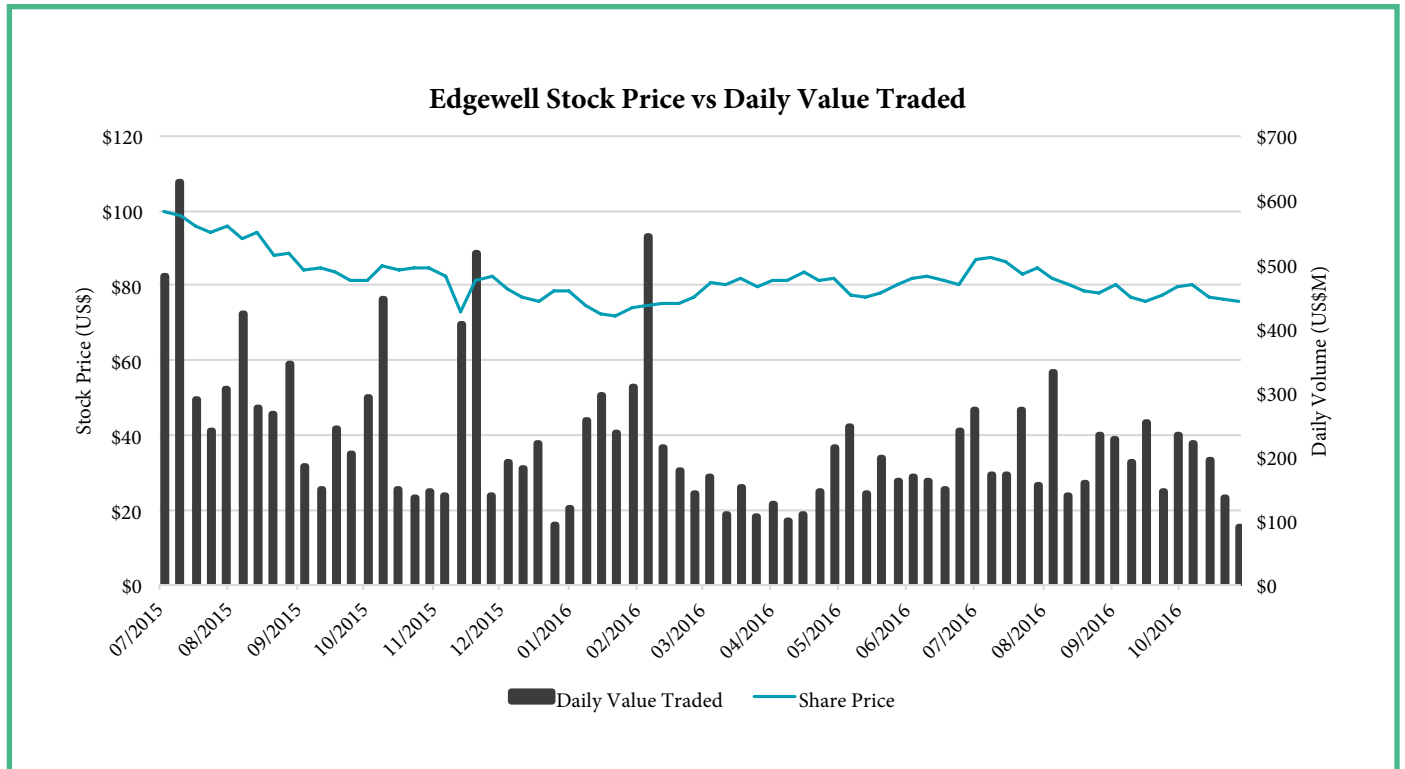
Based on FY2016 estimated EBITDA, and EV/EBITDA Multiple of 16.6x, which is at 10% premium to the average takeover EV/EBITDA multiple of selected M&A transaction precedents

Based on FY2016 estimated EBITDA, and EV/Sales Multiple of 3.2x, which is a 40% discount to the average 5.4x EV/Sales multiple of the P&G/Gillette and Unilever/DSC transactions

Based on FY2016 estimated EBITDA, and EV/EBITDA Multiple of 18.1x, which is at 20% premium to the average takeover EV/EBITDA multiple of selected M&A transaction precedents

EDGEWELL: LIQUIDITY

- Since its separation from Energizer, the average daily trading volume in Edgewell totals US\$224M (~5% of current market capitalisation of US\$4.5B*).



* Based on 27 October 2016 Share Price

APPENDIX #1: POTENTIAL ACQUIRER - BEIERSDORF AG

- Beiersdorf is a world leader in Skin Care with more than 130 years of history.
- Its products are sold in 200+ countries: Western Europe, North America (48%), Eastern Europe, Latin America, Africa, Asia and Australia (52%)
- Its three important global brands are: NIVEA, Eucerin and La Prairie. Other brands include Labello, Hansaplast, Florena, 8x4, tesa, arix, SLEK and HIDROFUGAL.
- maxingvest Group (Herz family) is the controlling shareholder, which directly owns 51% of shares.

STOCK OVERVIEW*:

- Listing – Frankfurt Stock Exchange
- Stock Price = EUR 80.14
- Market Cap = ~EUR 20.3B
- Net Cash = ~EUR 1.8B

KEY STATS**:

- Revenue = EUR 6.7B
- Net Income = EUR 0.66B
- P/E = 28.9x
- P/B = 4.6x
- EV/EBITDA = 15.6x
- ROE = +16.9%
- ROA = +10.5%
- ROIC = +16.6%

Beiersdorf



* 28/10/2016

** FY2015 – Data Source: Thomson Reuters

APPENDIX #2: POTENTIAL ACQUIRER - COLGATE-PALMOLIVE COMPANY

- Founded in 1806, Colgate-Palmolive Company (Colgate) is a US\$16B global consumer products company.
- Its products are sold in 223 countries (49% developed markets, 51% emerging markets) under four core categories: Oral Care (47% of 2015 net sales), Personal Care (20%), Home Care (19%) and Pet Nutrition (14%).
- Its key brands are: Colgate, Palmolive, Protex, Softsoap, Sanex, Irish Spring, Lady Speed Stick, Caprice, Ajax, Fabuloso, Murphy, Suavitel, Soupline, Cuddly and Hill's.

STOCK OVERVIEW*:

- Listing – NYSE
- Stock Price = US\$71.17
- Market Cap = ~US\$63.3B
- Net Debt = ~US\$5.4B

KEY STATS**:

- Revenue = US\$16.0B
- Net Income = US\$1.4B
- P/E = 43.8x
- EV/EBITDA = 19.5x
- ROA = +11.6%
- ROIC = +20.9%



Oral Care 47%
Of Global Net Sales



Personal Care 20%
Of Global Net Sales



Home Care 19%
Of Global Net Sales



Pet Nutrition 14%
Of Global Net Sales

APPENDIX #3: Q4/FULL YEAR FY2016 RESULTS – SUMMARY*

PRIVATE LABEL

Strong sales in private label products, including Mach3-compatible private label products in partnership with US customers.

BULLDOG ACQUISITION

In November 2016, the Company acquired Bulldog Skincare Holdings Ltd, a UK based men's grooming and skincare products company.

US\$78.64

The Company repurchased 2.5M of its own shares in FY2016 for US\$196.6M, implying an average cost of US\$78.64 per share.

PROMOTIONAL ENVIRONMENT

The US shaving market continued to be marked by promotional activities in Q4 FY2016.

SG&A

Edgewell's overall SG&A spending remained higher than target. The recent adoption of a Zero-Based Spending initiative should assist cost reduction/s.

100%+

The Company is guiding 100%+ free cash flow conversion rate for FY2017.

CEO'S COMMENTS ON E-COMMERCE / SHAVING CLUBS

"Within the US when you look at e-commerce, when you look at the omni-channel and the pure play channels, we've been powering up capabilities, putting a lot more resources against that. We've gained share within those segments for each of the last three years.

Now, when you talk about the shave clubs you know the jury is out and we can speculate where they will morph over the last - sequentially over the last two to three quarters, they've been pretty flat. Not versus a year ago, but quarter to quarter to quarter. With the challenge about profitability, I think you see them thinking about how to get their basket size up, become more than a shave club to really survive. I think there's a question about how much aggregation needs to happen. It's a question and I'm not going to speculate how much Unilever uses TSC as a shave club or an entry way to men's grooming or a personal care. That's, I think, the big question mark."

ELEVATION CAPITAL MANAGEMENT LIMITED LUXOTTICA GROUP SPA [LUX:IM]

Research Presentation released in December 2016





INVESTMENT SUMMARY:

THE WORLD'S LARGEST EYEWEAR COMPANY

Luxottica (LUX.MI, Market Capitalisation €25.10B) is the world's largest eyewear company. It is also Italy's largest fashion company. Its products are distributed across more than 150 countries, with 95 million prescription frames and sunglasses produced annually worldwide.

A GROWING GLOBAL EYEWEAR MARKET

The global eyewear market is currently estimated to be worth US\$120B and is forecast to grow at a 2.4% Compound Annual Growth Rate (CAGR) to 2021. Core segments within the industry are vision correction and sunglasses - both of which remain largely underpenetrated. It is currently estimated that over 2.5bln people require vision correction solutions but do not have access to it, while a further 5.8bln people are unequipped within the sunglass segment. Strong structural growth drivers and attractive socio-demographic factors are expected to support growth over the long term. Main drivers of growth within the eyewear market include:

- increased market penetration;
- a growing and aging global population;
- a widening middle class;
- increasing prevalence of poor eyesight;
- heightened consumer awareness toward the importance of UV and blue light protection;
- shifting perceptions toward eyewear as a fashion statement; and,
- a trend of premiumisation where branded eyewear is outgrowing non-branded eyewear.

DOMINANT POSITION IN BRANDED EYEWEAR MARKET

Luxottica has the dominant proprietary and licensed brand portfolio in the industry. Its key proprietary brands are Ray-Ban and Oakley, which account for 40% of its sales. Its licensed brands include: Giorgio Armani, Burberry, Bulgari, Chanel, Dolce & Gabbana, Michael Kors, Prada, Ralph Lauren, Tiffany & Co., Versace and Valentino.

RETAIL DISTRIBUTION NETWORK

Luxottica owns and operates several leading retail brands which hold dominant positions in their respective markets including global market leaders: Sunglass Hut and LensCrafters. The retail brands include: Sunglass Hut, LensCrafters, Pearle Vision, Sears Optical, Target Optical, OPSM, ILORI, EyeMed Vision Care, Optical Shop of Aspen, Laubman & Pank, GMO, Oliver Peoples, Alain Mikli, Oakley, David Clulow, Glasses.com and Econópticas.

STRONG MOAT - VERTICAL INTEGRATED BUSINESS MODEL

Under the leadership of its founder, Leonardo Del Vecchio, the past few decades have seen the Company relentlessly pursue the

integration of its entire value chain, from sketches to product design, manufacturing and distribution. The Company describes it as a "world of data, analytics, and infrastructure".

We believe this unparalleled vertically integrated business model is Luxottica's most important moat. Its presence across all stages of the value chain provide Luxottica with an extremely strong competitive advantage, and enables them to maximise efficiencies and extract value throughout their business, at the same time creating an enormous barrier to entry for competitors in the branded eyewear market.

GOVERNANCE ISSUES

Mr. Del Vecchio owns 66.5% of Luxottica. He has been praised in the past for stepping back and hiring outside management. However, since 2014 there has been a high level of disruption as Luxottica has lost three CEO/Co-CEOs and other senior managers. These seemingly regular changes in senior management resulted in investor concern toward succession plans and ultimately the future of the Company.

M&A OPPORTUNITIES

We take our cue from the Chairman when he stated earlier in the year that "another area that has our attention is the lens world, which is worth as much as the frame market and delivers very high margins". We believe the Company may revive the abandoned merger discussions between Luxottica and the world's largest lens manufacturer Essilor (ESSI.PA) in 2013. Other M&A opportunities are also possible such as expansion of their retail channel or continued consolidation within the frames business.

RECENT STOCK PRICE WEAKNESS PRESENTS A LONG-TERM OPPORTUNITY

Since August 2015, Luxottica stock has faced significant pressure following a broad correction in the Italian stock market, earnings revisions across several key markets and ongoing management concerns. This has resulted in the stock declining some 41% to a recent low of €39.92 October 2016, from an all-time high of €67.45 recorded in August 2015.

The Elevation Capital Value Fund established a position in Luxottica in October 2016, at an average cost of €40.65 per share – equal to 1.2% of the portfolio as at 30 November, 2016.

INVESTMENT THESIS - SUMMARY

Luxottica is the undisputed leader in a structurally growing industry. There exist significant opportunities to increase market penetration, while socio-economic drivers favour long-term growth. Qualitative factors such as the ongoing optimisation of the Group's vertical integration strategy and execution of current growth initiatives provide substantial headroom in this regard.

We acknowledge that softness within the eyewear market may create volatile trading conditions in near term. However, we consider the quality of Luxottica's business to remain intact and believe the Company will transcend short-term uncertainty to survive and thrive in the long run. In contrast to popular belief, it is our view that the active involvement and leadership of Mr. Del Vecchio since 2014 is a plus for the Company and the other 33.5% of shareholders - we maintain that concerns toward succession planning should be viewed as short-term "noise".

Luxottica currently trades at €50.30 per share (as at 12 December, 2016), with an EV/EBITDA multiple of 13.5x. We currently value Luxottica in normal trading conditions with an Intrinsic Value Estimate range of €50.96 - €65.90. From the Elevation Capital Value Fund's cost basis of US€40.65 per share, our valuation/s represent upside potential between +25.4% to +62.1%.



LUXOTTICA: THE WORLD'S LARGEST EYEWEAR COMPANY

No. **1**

Eyewear Company in the world (based on revenue).

No. **1**

Italy's largest fashion company (based on revenue).

150

Countries distribute Luxottica Products.

95

Million prescription frames and sunglasses are produced annually.

DOLCE & GABBANA

LUXOTT BRAND

- Luxottica has

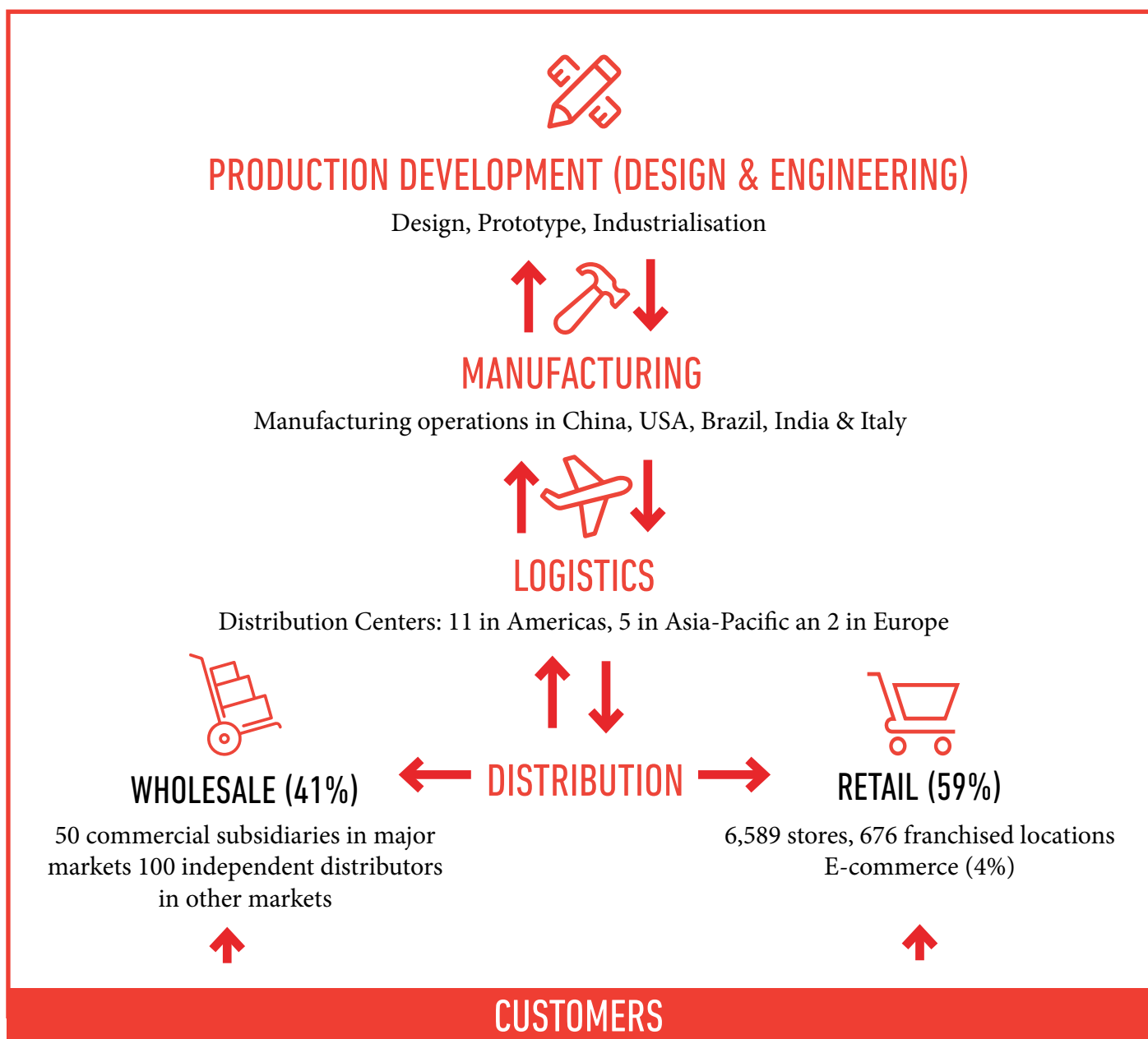


Above: Some of Luxottica's



Willow Smith wears Chanel

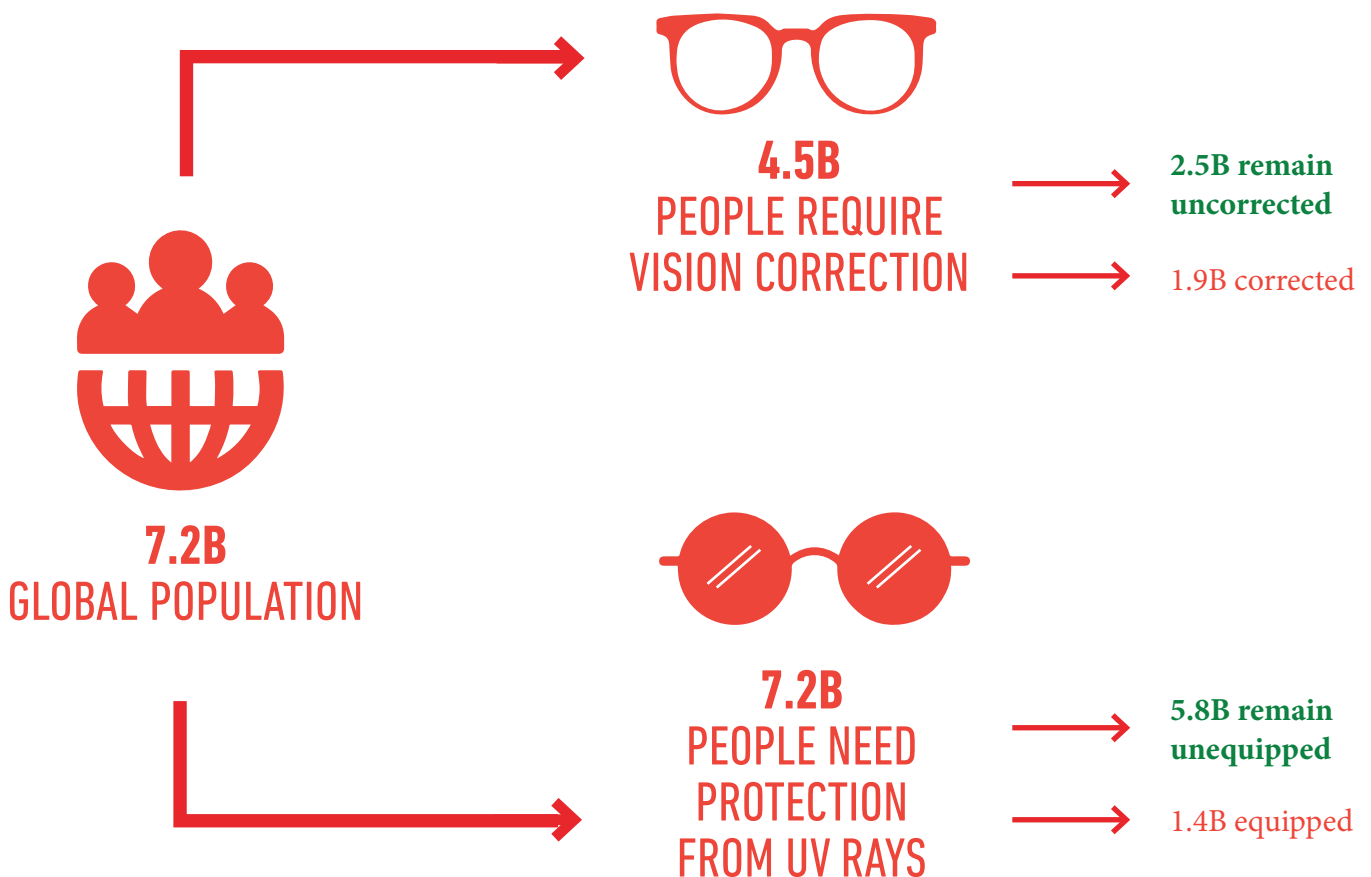
LUXOTTICA: STRONG MOAT - VERTICALLY INTEGRATED BUSINESS MODEL



- Under the leadership of its founder, Leonardo Del Vecchio, the past few decades have seen the Company relentlessly pursue the integration of its entire value chain, from sketches to product design, manufacturing and distribution. The Company describes it as a “world of data, analytics, and infrastructure”.
- We believe this unparalleled vertically integrated business model is Luxottica’s most important moat. Its presence across all stages of the value chain provides Luxottica with an extremely strong competitive advantage, and enables them to maximise efficiencies and extract value throughout their business. at the same time creating an enormous barrier to entry for competitors in the branded eyewear market.

LUXOTTICA: STILL A LONG RUNWAY OF GROWTH

- *The global eyewear market is currently estimated to be worth US\$120B. It is a structurally-growing industry, with “500 million more people needing eye correction and wanting to see better in the next five years”**.
- Core segments within the industry are vision correction and sunglasses - both of which remain largely underpenetrated.
- The two segments both benefit from strong structural growth drivers and attractive socio-demographic factors such as a growing and aging global population, a widening middle class, increasing prevalence of poor eyesight, heightened consumer awareness toward the importance of UV and blue light protection, and shifting perceptions toward eyewear as a fashion statement and a trend of premiumisation where the branded eyewear is outgrowing non-branded eyewear.



LUXOTTICA: GOVERNANCE UNCERTAINTY

- Mr. Del Vecchio owns 66.5% of Luxottica. He has been praised in the past for stepping back and hiring an outside manager – Mr. Andrea Guerra in 2004 to run his company.
- However, Luxottica has lost three CEO/Co-CEOs and other senior managers since 2014. It all started when Mr. Guerra resigned in 2014 in a power struggle between himself and Mr. Del Vecchio.
- These significant changes in senior management has heightened investor concerns toward succession plans/ planning and ultimately the future of the Company.
- Our observation is that Mr. Del Vecchio felt that some of the senior management had become content with status quo and past success, and had become risk-averse to making changes that are required to propel the Company into the future.
- We note that Mr. Del Vecchio has already allocated his 66.5% Luxottica stake to his wife and six children. However, the issue of who is going to lead the Company after Mr. Del Vecchio is harder to ascertain.
- In this situation, we recall Warren Buffett's saying that "I try to buy stock in businesses that are so wonderful that an idiot can run them because sooner or later, one will". We believe that this business that Mr. Del Vecchio has built over the last few decades is so strong that it can withstand a bit of mis-management and still survive and thrive until the issue is more fully dealt with. In the meantime, we are afforded the opportunity to acquire a fractional interest in this business at an attractive valuation.



LEONARDO DEL VECCHIO
Founder/Executive Chairman



ANDREA GUERRA
CEO 2004-2014



ENRICO CAVATORTA
Co-CEO six-weeks



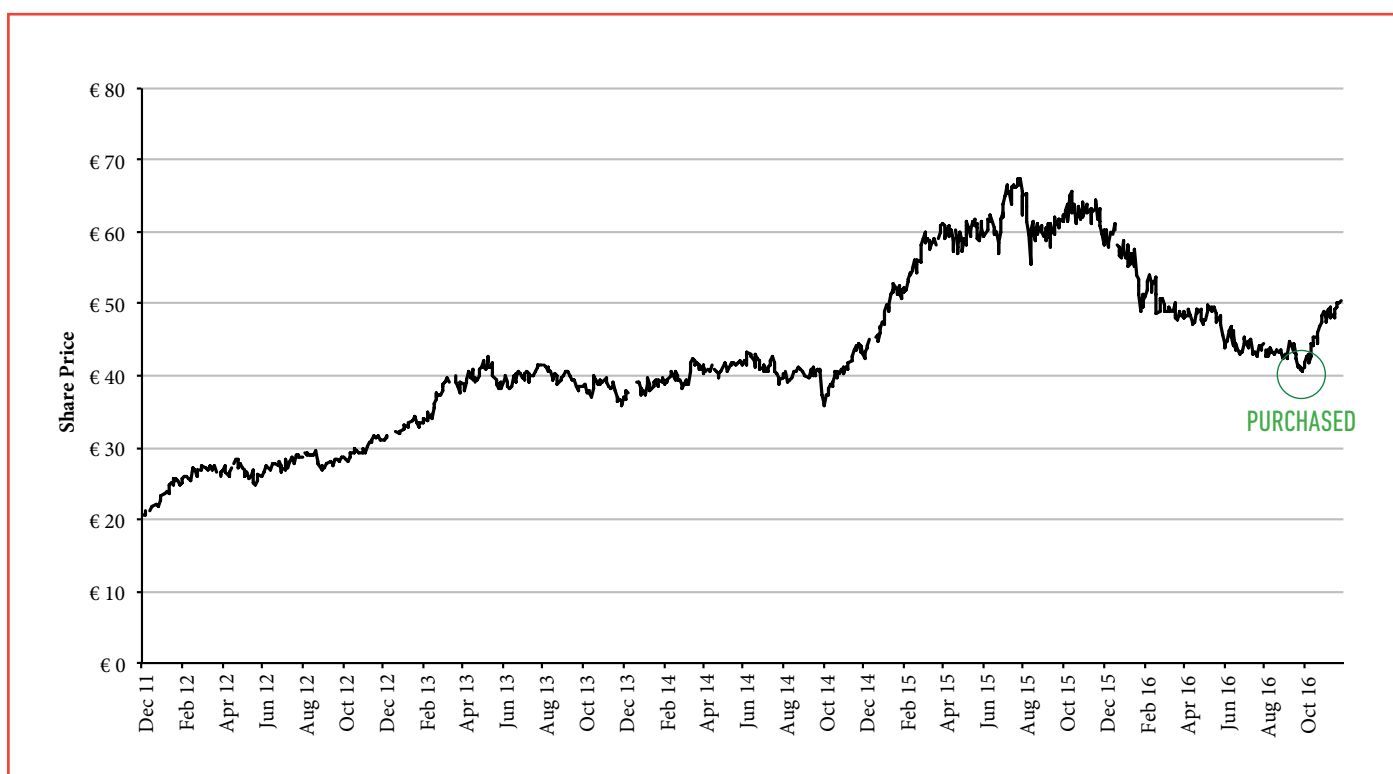
ADIL MEHBOOB-KHAN
Co-CEO 2014-2016



MASSIMO VIAN
Co-CEO 2015 - today

LUXOTTICA: RECENT UNDERPERFORMANCE PRESENTS OPPORTUNITY

- Since August 2015, Luxottica's stock price has been under significant pressure following a broad correction in the Italian stock market, earnings revisions across several key markets and ongoing management concerns. This has resulted in the stock declining some 41% to the recent low of €39.92 (7/10/16), off an all-time high of €67.45 recorded in August 2015.
- We initiated our position in the Elevation Capital Value Fund in October 2016, at a current average cost of €40.65*.
- Current share price** = €50.30 (Market Capitalisation = €25.1B)



* Elevation Capital Value Fund cost basis as at 21/11/2016

** As at 12 December 2016

LUXOTTICA: HISTORY – GROWTH FROM ACQUISITIONS & INTEGRATION

- 
- 1961 Luxottica is founded by Del Vecchio and two financial partners, starting out with the production of frame components.
 - 1971 Luxottica launches their first branded frames which are introduced at the international Optics, Optometry and Ophthalmology Exhibition.
 - 1974 The Company acquires Scarrone, an Italian distributor, in what is the first move to become a vertically integrated business.
 - 1981 Luxottica acquires Avant Garde Optics Inc, one of the largest commercial companies in the world operating within the optics industry.
 - 1982 The Company acquires a U.S. distributor to begin sales operations in the United States.
 - 1984 The Company launches subsidiaries in England, France, and Canada.
 - 1988 Luxottica secures licensing agreement with Giorgio Armani marking the beginning of the Company's long held affiliation with the fashion industry.
 - 1990 Luxottica IPO sees the Company listed on the New York Stock Exchange.
 - 1995 Luxottica acquires LensCrafters, the largest optical retailer in North America. Acquisition of Persol brand.
 - 1999 Luxottica acquires the sunglasses division of Bausch & Lomb, which includes Ray-Ban and other brands. The Company launches the managed vision care subsidiary EyeMed Vision Care.


AQUISITION

AQUISITION

AQUISITION

AQUISITION

AQUISITION

- 
- | | | |
|------|---|------------|
| 2000 | Luxottica lists on the Italian Stock Exchange (Milan). | |
| 2001 | Luxottica acquires Sunglass Hut International for US\$462M and becomes the world's leading eyewear retailer. | AQUISITION |
| 2003 | Acquisition of OPSM Group, a leading optical retailer in Australia and New Zealand, with an equity value of AU\$550M. | AQUISITION |
| 2005 | Luxottica consolidates its position in the emerging Chinese market with the acquisition of Ming Long Optical and Xueliang Optical. | AQUISITION |
| 2007 | Acquisition of Oakley Inc. a global leading sports, technology and lifestyle brand for US\$2.1B. | AQUISITION |
| 2011 | Luxottica strengthens its position in Latin America with the acquisition of the Opticas GMO, Econopticas e Sun Planet retail brands. | AQUISITION |
| 2012 | Acquisition of leading Brazilian eyewear player Grupo Tecnol. Luxottica expands its sunglass specialty retailer Sunglass Hut by rebranding more than 125 Sun Planet stores in Spain and Portugal. | AQUISITION |
| 2013 | Acquisition of French luxury and contemporary eyewear player Alain Milki International. | AQUISITION |
| 2014 | Luxottica partners with Google in the development of Google Glass.
Acquisition of Glasses.com. | AQUISITION |
| 2015 | Luxottica and Macy's announce a deal that will bring LensCrafters to 500 Macy department stores. Sunglass Hut expansion into mainland China and Southeast East Asia. | |
| 2016 | Luxottica acquires the remaining 63% of Salmoiraghi & Vigano, Italy's largest eyewear retailer. | AQUISITION |

LUXOTTICA: LEONARDO DEL VECCHIO – FOUNDER – STILL IN CHARGE

- Leonardo Del Vecchio was born in Milan in 1935. He founded Luxottica Group in 1961 when he was 25, and has been chairman of the Company since – Current age 81.
- He is the second richest person in Italy (after Michele Ferrero), and 37th in the world.
- Even in Luxottica's early years, Mr. Del Vecchio already had the vision to move the Company from being a components/accessories manufacturer for the optical industry to a vertically integrated manufacturer for the entire frames. Later he pushed the Company into distribution, first wholesale, and then, from 1995 retail.
- We have noted in the governance issues slide the markets unease with the governance issues surrounding Mr. Del Vecchio's control/ownership over the Company. However, Elevation Capital is comfortable with Mr. Del Vecchio taking a more active role in the company that he founded fifty-five years ago.



“... we will have from now on the opportunity to work even closer with our Founder. His entrepreneurial spirit, his vision, the speed of execution will even more penetrate all of our organizations. He definitely keeps on pushing all the management to challenge the status quo of the organization, to go faster towards evolution, to test, to experiment new business models, from Retail and Wholesale to Operations and that will definitely be a further boost effect to the way we will do business in the next couple of years.”

– Luxottica CEO Massimo Vian

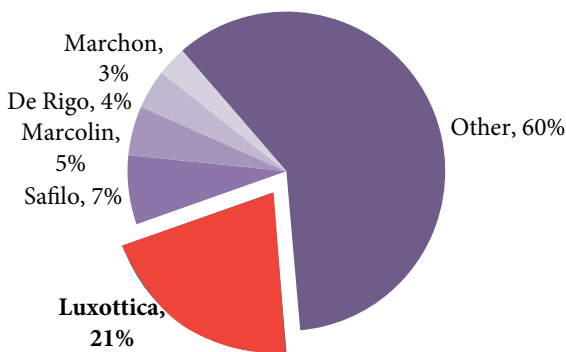
“The pillars of our strategy have not changed in 50 years and will not change now: product quality, strong brands, efficient factories, widespread distribution and growing our direct relationship with the end consumer through retail, franchising and e-commerce”

- Founder and Chairman, Leonardo Del Vecchio

LUXOTTICA: STRONG POSITION IN FRAGMENTED MARKET

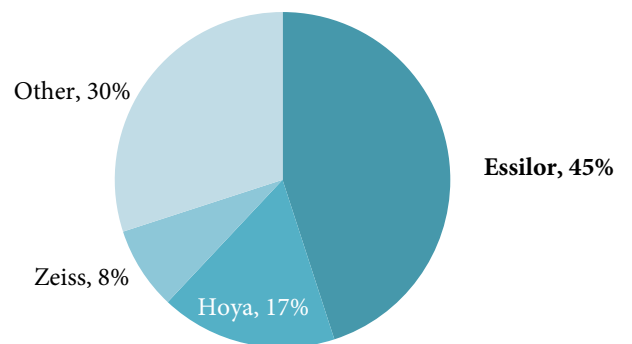
- Luxottica holds the title of the world's largest frame manufacturer, while Essilor focuses almost entirely on lenses. Retail continues to be highly fragmented globally.

Frames wholesale market share 2015



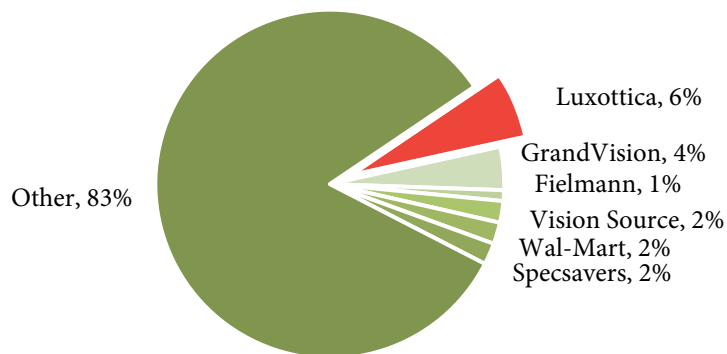
#1 IN THE WORLD

Lens manufacturers market share 2015



OPPORTUNITY!

Retail distribution market share 2015



#1 IN THE WORLD

LUXOTTICA: KEY BRANDS – PROPRIETARY BRANDS

- Luxottica's proprietary brand portfolio includes two of the largest eyewear brands in the world; Ray-Ban and Oakley. These two brands account for ~40% of the business today.
- Proprietary brands particularly aid bottom line growth as profit margins can be captured across all segments of the business.
- Deutsche Bank estimates proprietary brands to be on average 6%-8% more profitable than licensed brands*.

40% OF LUXOTTICA'S BUSINESS



VOGUE
eyewear

Persol®

OLIVER PEOPLES
OOVV□□

alain mikli
paris

AE
arnette
EYEWEAR

ESS

Sferoflex®

LUXOTTICA: KEY BRANDS – LICENSED BRANDS

- Luxottica holds a slate of licenses for some of the world's most prestigious luxury eyewear brands including Armani, Chanel and Prada resulting in what has become one of the largest brand portfolios in the industry.

A | X
ARMANI EXCHANGE


Brooks Brothers

BURBERRY
London, England

BVLGARI

CHANEL


COACH
NEW YORK

DKNY

DOLCE & GABBANA

EMPORIO  ARMANI

GIORGIO ARMANI

MICHAEL KORS

MIU MIU
EYEWEAR

Paul Smith
SPECTACLES

POLO
RALPH LAUREN

PRADA
EYEWEAR

RALPH LAUREN

STARCK[®]
E Y E S

TIFFANY & Co.
NEW YORK SINCE 1837

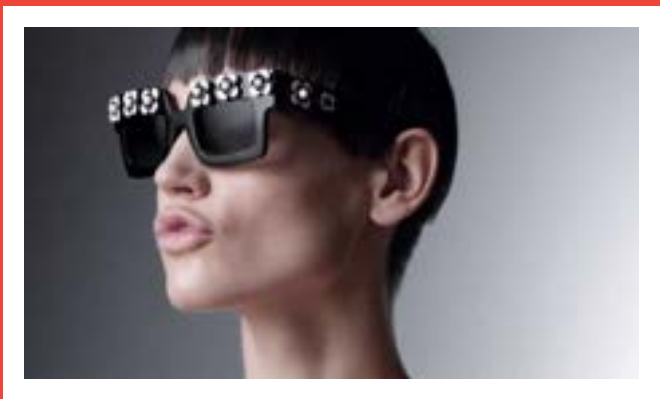
TORY  BURCH

VERSACE

LUXOTTICA: STRONG/FAVOURABLE POSITION IN LICENSE NEGOTIATION

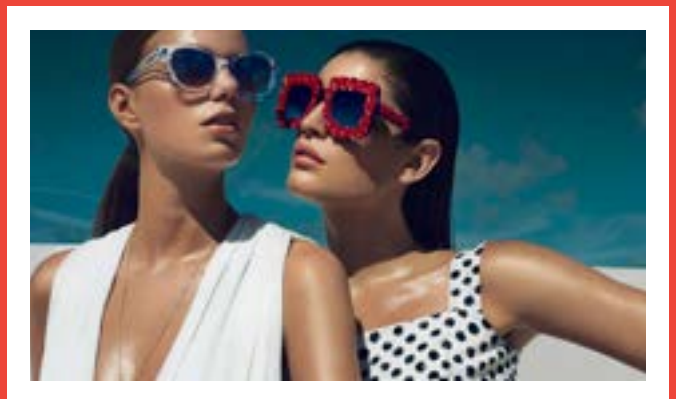
- We believe Luxottica is in a strong and favourable position when negotiating licensing agreements with premier luxury brand owners. Its vast and unmatched distribution networks and economies of scales mean it can offer the best deal to potential licensors than its smaller competitors.
- We suggest this allows Luxottica to be more selective when putting together its portfolio of licensed brands.

EXAMPLE #1 – PRADA



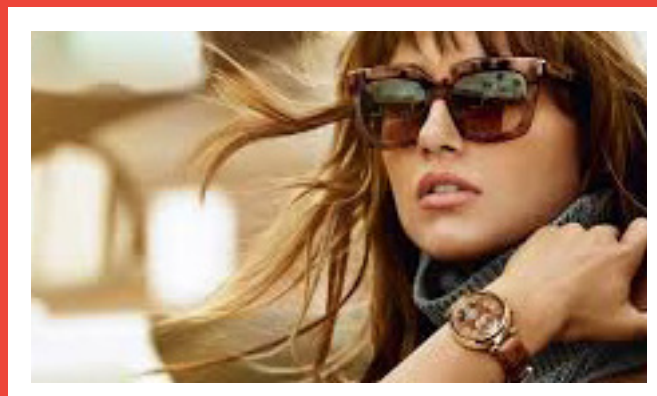
- In 1999, Prada decided to leave Luxottica and entered into a JV with De Rigo.
- The JV was short lived. In 2003 Prada returned to Luxottica. The licensing agreement has been renewed twice through 2025.

EXAMPLE #2 – VALENTINO



- Valentino worked with Safilo from 1998 to 2011 for its eyewear, then in 2012 switched to Marchon.
- In early 2016, Valentino signed a 10-year licensing agreement with Luxottica which will initiate in 2017.

EXAMPLE #3 – MICHAEL KORS



- In 2005, Michael Kors eyewear collection was launched by Marchon.
- Marchon was not able to renew the license in 2014 and lost it to Luxottica.

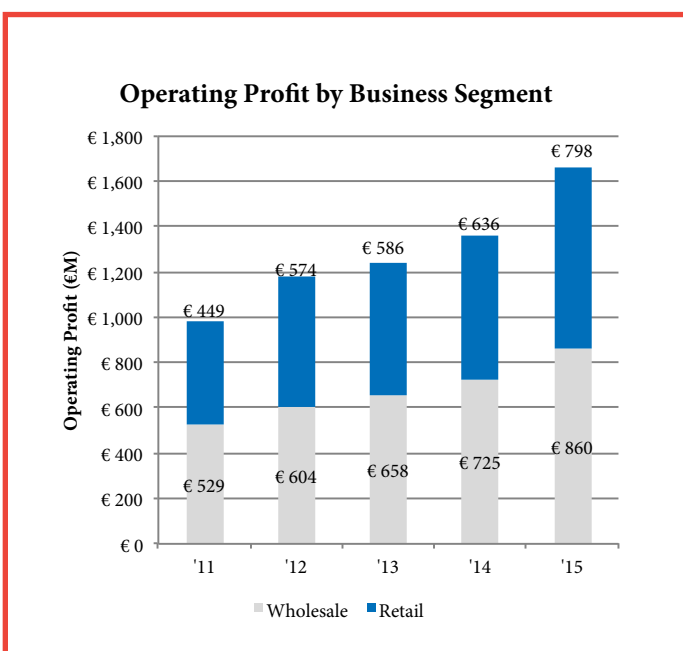
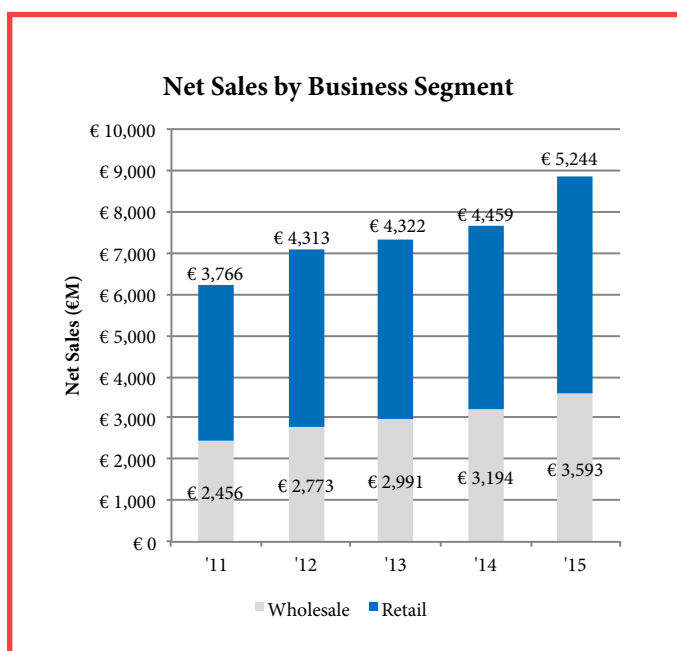
LUXOTTICA: KEY BRANDS – RETAIL BRANDS

- Luxottica owns and operates several leading retail brands which hold dominant positions in their respective markets including global market leaders: Sunglass Hut and LensCrafters.
- The retail brands include Sunglass Hut, LensCrafters, Pearle Vision, Sears Optical, Target Optical, OPSM, ILORI, EyeMed Vision Care, Optical Shop of Aspen, Laubman & Pank, GMO, Oliver Peoples, Alain Mikli, Oakley, David Clulow, Glasses.com and Econópticas.



LUXOTTICA: BUSINESS SEGMENTS BY REVENUE & OPERATING PROFITS

- Luxottica has an extremely strong distribution network which has been integral in generating consistent top line growth. The business can be categorised into two segments. In 2015:
 - Wholesale represented 41% of net sales, and 52% of operating profit.
 - Retail accounted for 59% of net sales, and 48% of operating profit.
- There is a steady growth of net sales and operating profit in both segments, with retail growing at a faster rate.
- Interestingly, both segments have been contributing similarly to the Company's operating profit in recent years.



Lily-Rose Depp wears Chanel

LUXOTTICA: WHOLESALE – 41% OF REVENUE, 52% OF OPERATING PROFIT

- The wholesale business segment involves the design, manufacturing, wholesale distribution and marketing of the Company's proprietary and licensed eyewear brands.
- The wholesale distribution network covers more than 150 countries with more than 50 commercial subsidiaries operating within key markets.
- Luxottica's wholesale customers are mostly retailers of mid to premium-priced eyewear, such as independent retail chains, opticians, department stores and duty-free shops.

STARS - SUPERIOR TURN AUTOMATIC REPLENISHMENT SYSTEM

- In 2002, Luxottica launched a programme called STARS (Superior Turn Automatic Replenishment System) across the wholesale segment as an alternate to direct participation in the retail business.
- Using their expertise in retail and infrastructure, STARS seeks to provide the same efficiencies evident in Luxottica's retail network to the wholesale market.
- The program itself offers inventory management, promotion management, new product introductions and IT services for third party retailers.
- By the end of 2015, STARS served approximately 6,300 stores and remains on target to reach 8,000 retailers by year end, 2016. As at March 2016, STARS represented 8-9% of wholesale turnover and is expected to reach 15% in the next couple of years.
- **The STARS program has been instrumental in driving incremental growth within mature markets and enables Luxottica to drive market share across the wholesale segment.**



LUXOTTICA: RETAIL – 59% OF REVENUE, 48% OF OPERATING PROFIT

- The retail business segment is comprised of Luxottica's owned retail brands which sells products manufactured by both the Company and other companies. Luxottica's retail distribution network is roughly evenly divided between optical and sunglass retailers.
- Luxottica is the largest optical retailer globally, with 7,300 stores worldwide and 48,000 associates.
- However, the Company's predominant exposure remains within North America accounting for 78% of sales in 2015. Approximately 90% of retail sales were from its own proprietary and licensed brands.



LUXOTTICA: EXTENSIVE WHOLESALE/RETAIL DISTRIBUTION NETWORK

Distributive network

Retail

7,265

STORES
(of which 676 franchises)

Wholesale

>50

SUBSIDIARIES

The main brand

AFRICA & MIDDLE EAST
Israel
South Africa
United Arab Emirates

AMERICAS
Argentina
Brazil
Canada
Mexico
United States

ASIA-PACIFIC
Australia
China
Japan
Hong Kong
India
Malaysia
Singapore
South Korea
Thailand
Taiwan

EUROPE
Italy
Austria
Belgium
Czechia
Finland
France
Germany
Greece
Hungary
Ireland

Netherlands
Norway
Poland
Portugal
Russia
Spain
Sweden
Switzerland
Turkey
United Kingdom

4,628

NORTH AMERICA

932 LensCrafters
541 People's Optic
(of which 423 are franchises)
423 Sears Optical
390 Target Optical

1,801 Sunglass Hut

178 Oakley stores

12 Oliver Peoples
(of which 1 is franchise)
2 Allen Mktl
11 The Optical Shop of Aspen
17 B.O.R.

490

EUROPE

43 David Collew
(of which 1 is franchise)

201 Sunglass Hut
70 David Collew

12 Oakley stores
(of which 3 are franchises)

4 Allen Mktl
(of which 2 are franchises)

854

ASIA-PACIFIC

1633 Greater China

288 OPTIM
(of which 71 are franchises)
47 Ludman & Park
(of which 23 are franchises)

104 Sunglass Hut
(of which 41 are franchises)

55 Oakley stores
(of which 23 are franchises)

4 Oliver Peoples
(all franchises)
1 Allen Mktl

764

CENTRAL & SOUTH AMERICA

479 GMD
(including Essentielles)

271 Sunglass Hut

9 Oakley stores
(all are franchises)

195

AFRICA & MIDDLE EAST

112 Sunglass Hut
(of which 52 are franchises)

3 Oakley stores
(all franchises)

334

GREATER CHINA

289 LensCrafters

42 Sunglass Hut

3 Allen Mktl

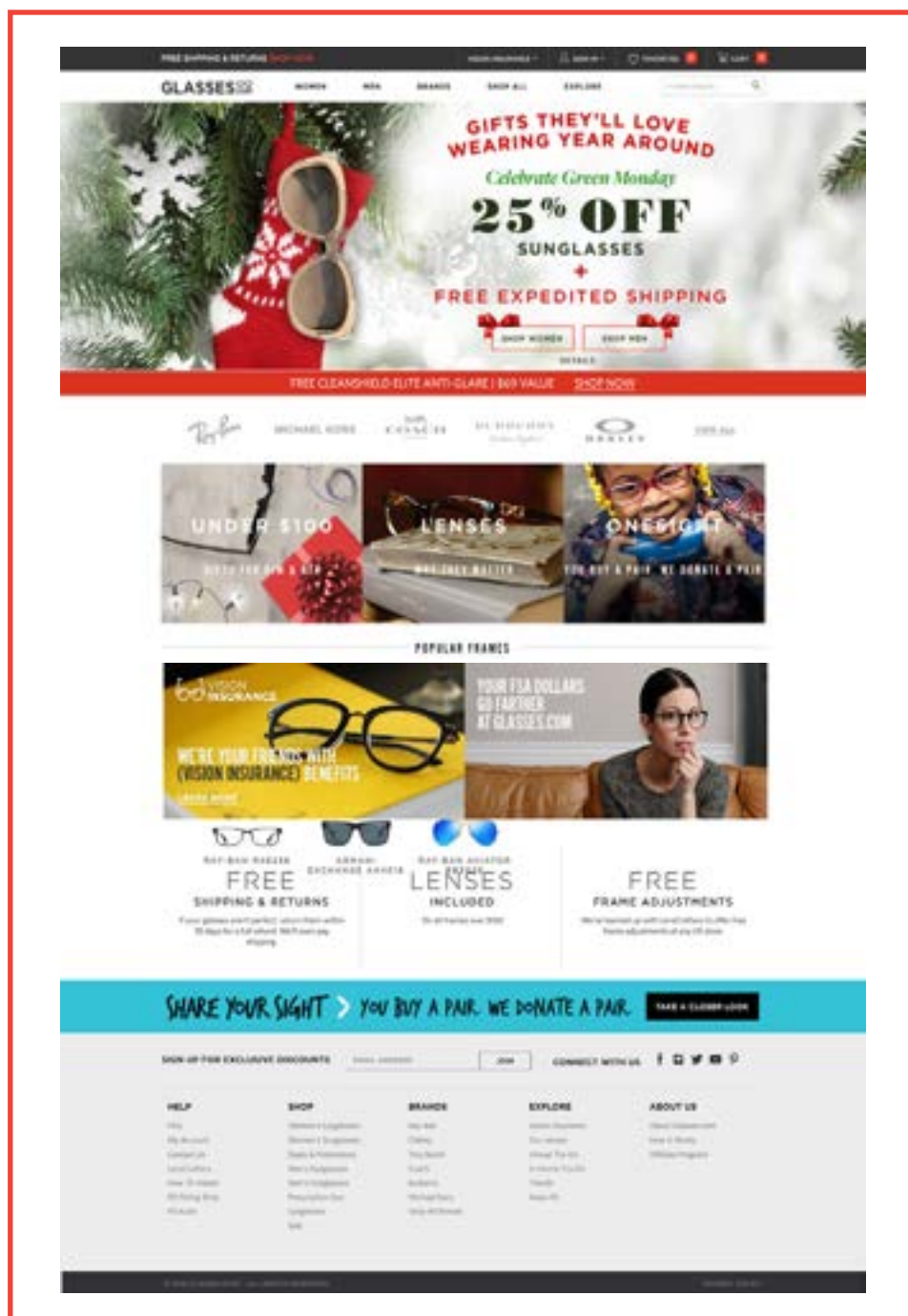
FOR EXERCISING NOT SOCIALIZING

WE MAKE REAL PERFORMANCE PRODUCTS FOR REAL WOMEN WHO GET AFTER IT EVERY DAY.

[VIEW WOMEN'S COLLECTION](#)

LUXOTTICA: E-COMMERCE

- Currently, E-Commerce generates 4% of total sales. 50% of this sales generation is from Luxottica's own websites (Ray-Ban, Oakley, Sunglass Hut, Glasses.com etc.), and the rest is from third parties (Amazon, Alibaba etc.).
- Management is targeting E-Commerce to be 7% of total sales in two years.
- The key asset of Luxottica's digital retail strategy is its database of 40 million consumers in North America.
- Ray-Ban.com had a 80% growth in 2015. Overall E-Commerce was up by 60%, in six geographies.



LUXOTTICA: NEW PRESCRIPTION-LENS INFRASTRUCTURE

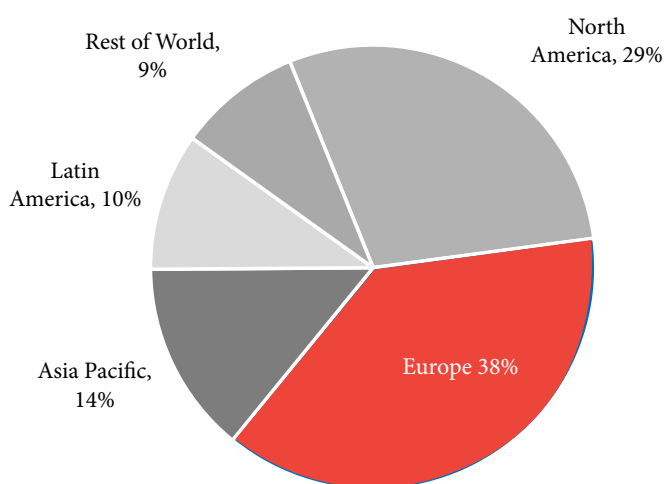
- Luxottica's new prescription-lens infrastructure in the US, Italy and China is particularly promising and offers attractive long-term growth potential with the ability to unlock new markets and enlarging the size of the industry that Luxottica competes in.
- Luxottica's lens infrastructure is currently directed toward serving the Company's retail business (such as supporting Luxottica introduction of prescription lenses into Ray-Ban with the launch of branded high-end prescription lenses). However, long-term growth could see expansion into wholesale channels and B2B services.
- We note, Luxottica appears to have made a conscious decision to focus on organic growth in this area, developing its own properties as opposed to M&A, granting Luxottica increased flexibility over the strategic direction of this category. This is in line with a broader strategic move to build scale and internalise competencies in the sun and optical lens categories.



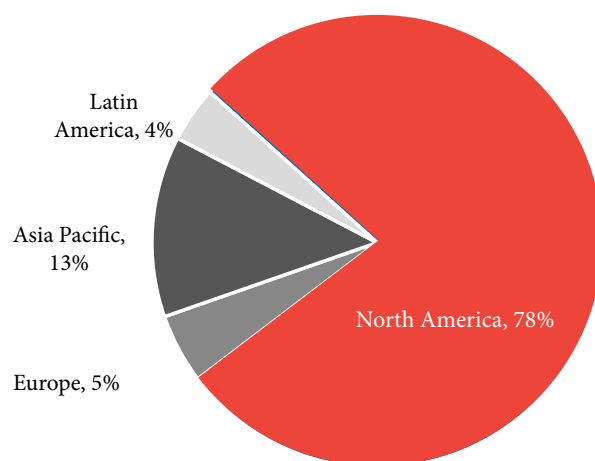
LUXOTTICA: GEOGRAPHIC SEGMENTS

- Luxottica generates the majority of its retail business (78%) from the North American market, and surprisingly only 5% from Europe.
- The wholesale business is much more balanced, with Europe generating 38% of the wholesale revenues, followed by North America at 29%.
- We suggest the Company is actively working on expanding its retail presence in Europe, as evidenced by the Company exercising the option in November 2016 to acquire the remaining 63% of Salmoiraghi & Vigano that it didn't own (it is Italy's largest eyewear retailer).

Wholesale - Net Sales by Geography*

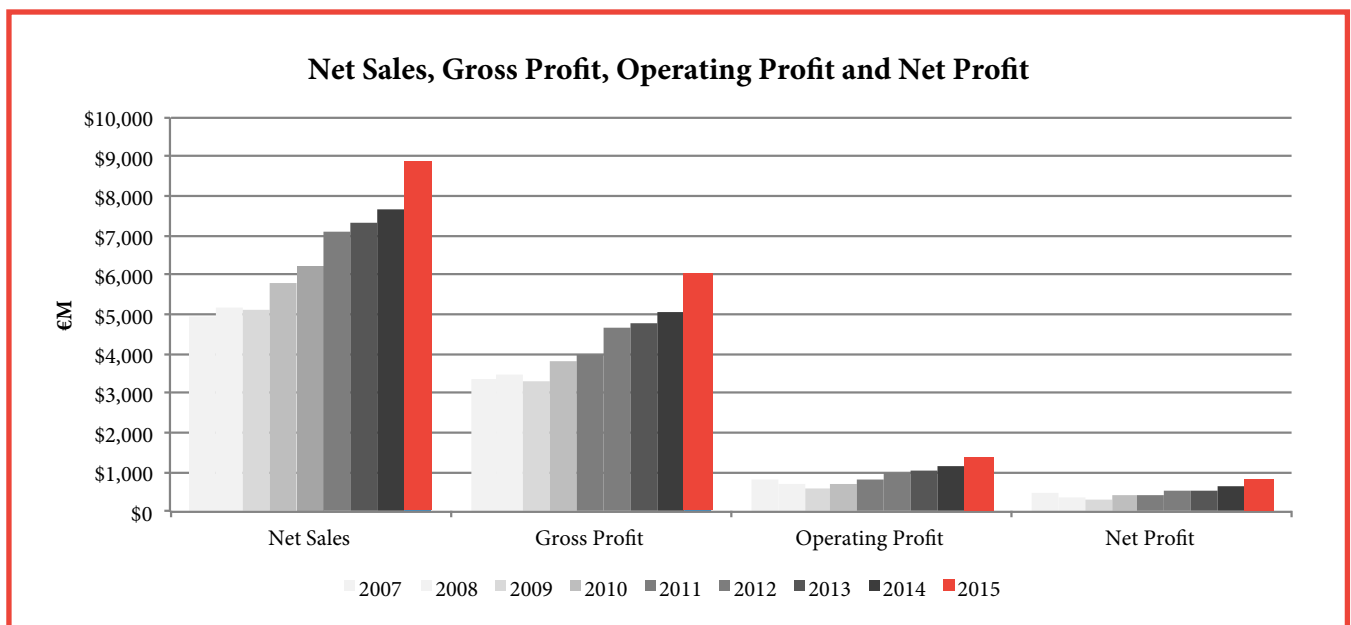


Retail - Net Sales by Geography*



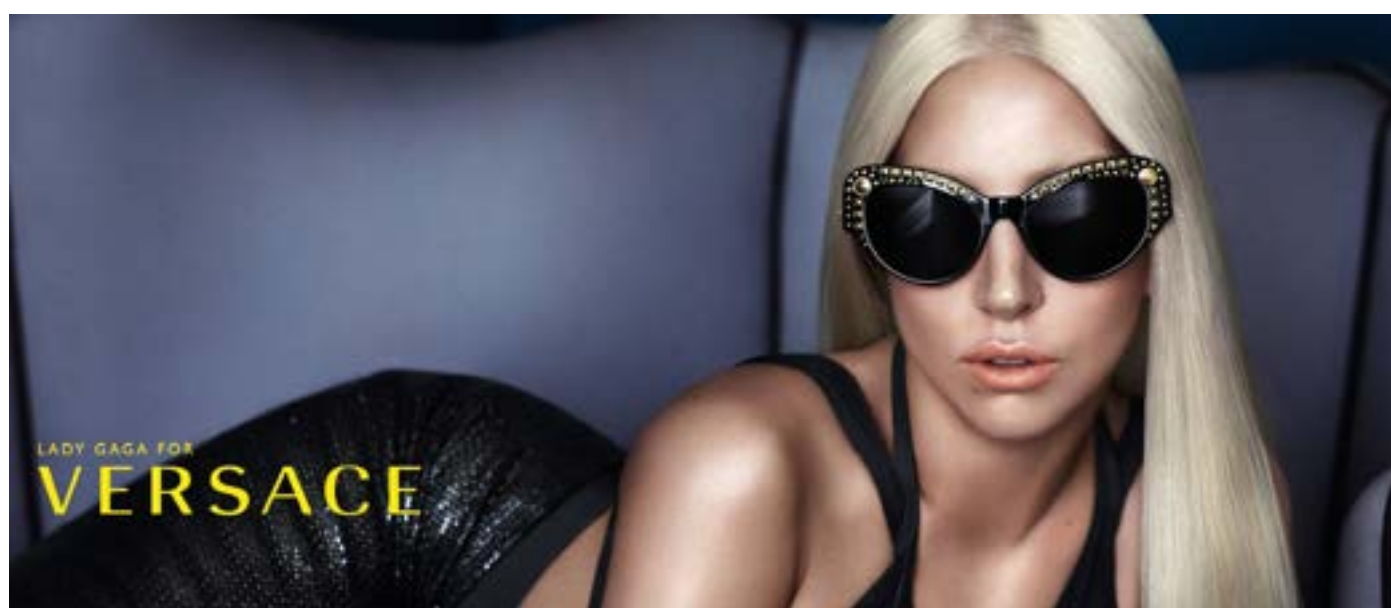
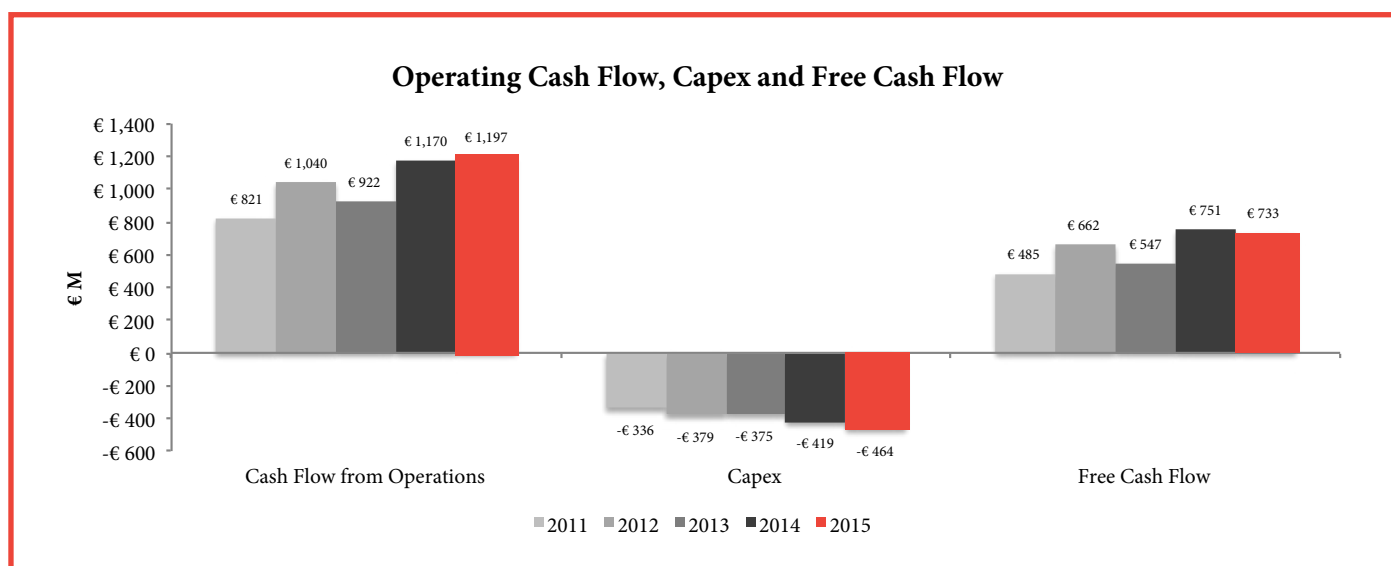
LUXOTTICA: STRONG POSITION TRANSLATED TO STRONG GROWTH

- Luxottica's strong market position and economics of scale has allowed it to grow consistently (10yr revenue CAGR of +7.9%) in an under-penetrated/fragmented global eyewear market in recent years.
- In 2015, the Company committed to double itself in size in ten years time. i.e., to become a €15B (Net Sales) company by 2024. The Company also expects to grow its top line between 5-6% (at constant forex) for 2016, and mid-to-high single digit for the longer term. The Company expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term.
- We believe this is achievable through a combination of organic growth and M&A opportunities to further strengthen or expand its vertically integrated business model (e.g., lens manufacturing capacity).



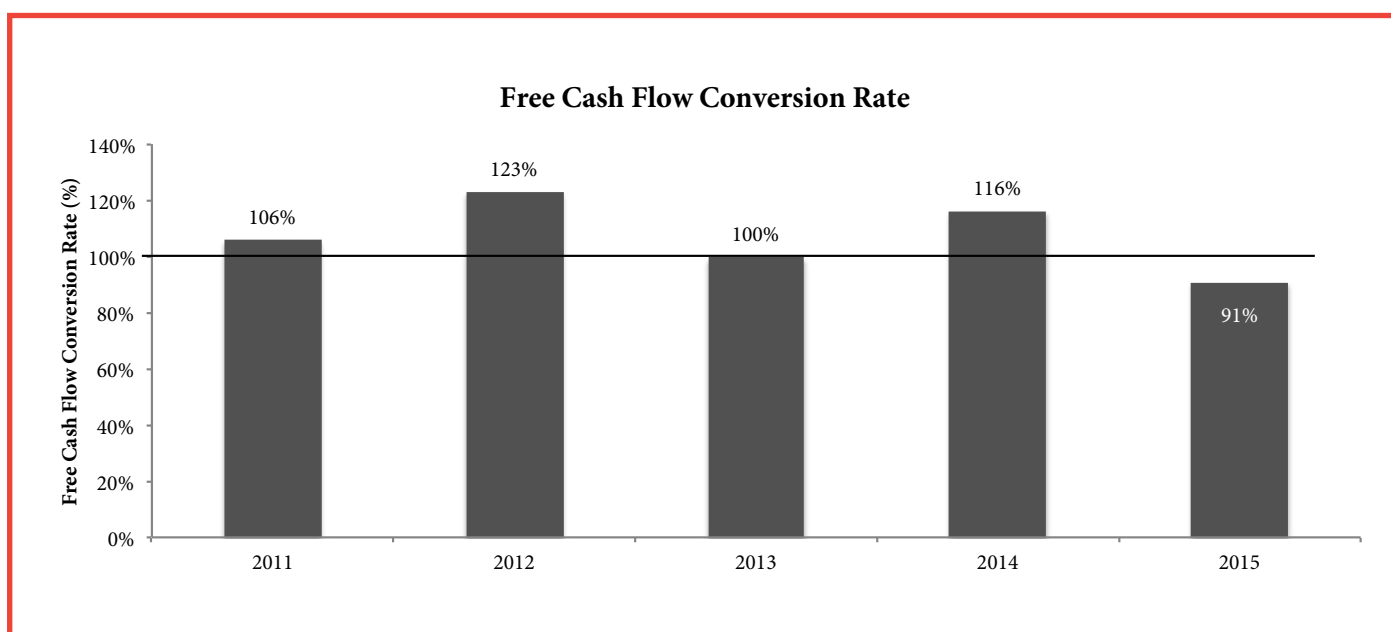
LUXOTTICA: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- Luxottica generates substantial free cash flow which over the past five years has collectively totalled nearly €3.2B (12.7% of current market capitalisation).
- In H1-2016, Luxottica achieved record high free cash flow of €400M, this is despite a 30% increase in capital expenditure YOY.
- Looking forward, Luxottica's strong cash flow position will allow the Company to explore external growth opportunities (both organic or M&A) and return capital to shareholders through dividend payments and/or share repurchases.
- In recent years, Luxottica has invested in areas of the business in response to industry dynamics and the importance of being able to target and serve customers. E.g., Luxottica has invested in optimising distribution centres, expanding digital services and exploring new lens manufacturing capabilities.



LUXOTTICA: FREE CASH FLOW CONVERSION RATE

- 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) Conversion Rate* to help gauge the resources available for strategic opportunities such as undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance.
- For the past few years, the Company has been able to achieve 100%+ FCF Conversion Rate, with the exception of 2015 when an approximate ~€95M increase in capital expenditure resulted in a 91% conversion rate. The average conversion rate for the past five years is 107%.
- We believe in the long run, the Company should be able to continue to deliver on average a +100% FCF conversion rate.



* Free Cash Flow Conversion Rate (Efficiency) is defined as Free Cash Flow / Net Income. This measure illustrates how efficient the business is at generating free cash flow versus its reported / accounting net income.



LUXOTTICA: FINANCIAL POSITION

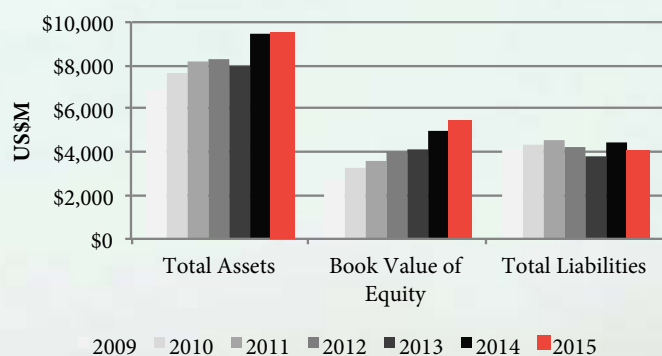
BALANCE SHEET

- The Company has continued to grow its Book Value in recent years while reducing its overall liabilities.

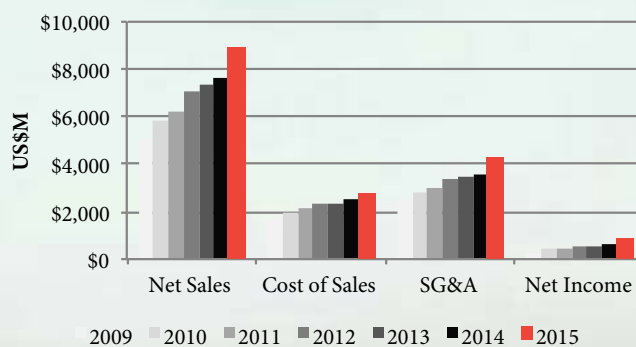
INCOME STATEMENT

- The benefit of Luxottica's unparalleled vertically integrated business model and economies of scale is such the Company has been able to grow its profit faster than its revenue:
 - Cost of Sales as a % of Net Sales reduced from 33.5% in 2009 to 30.9% in 2015.
 - SG&A as a % of Net Sales reduced from 49.7% in 2009 to 47.3% in 2015.
 - Net Margin increased from 5.9% in 2009 to 9.1% in 2015.
- As mentioned, the Company expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term*.

Book Value vs Total Liabilities



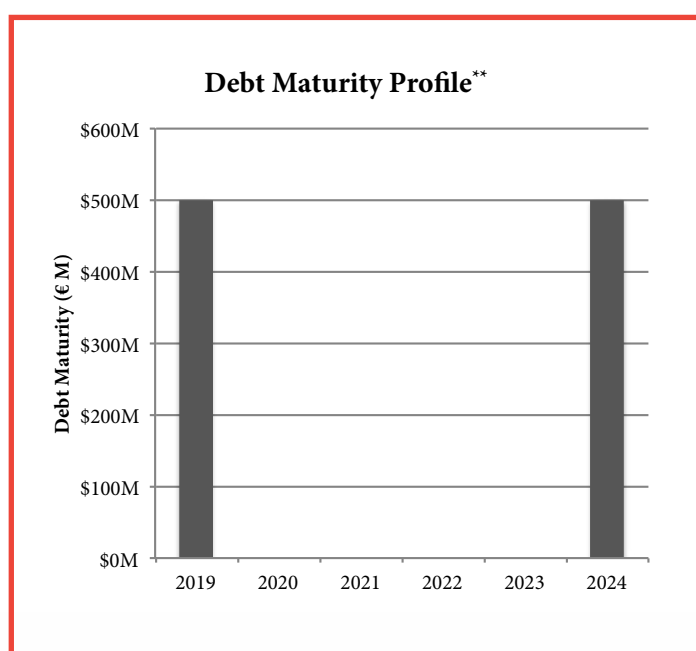
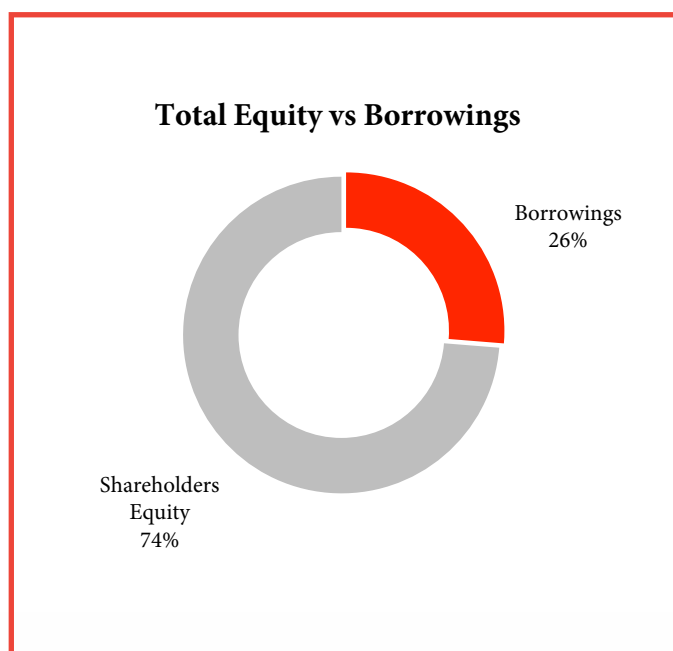
Revenue, Costs and Profits



LUXOTTICA: DEBT & TERM STRUCTURE

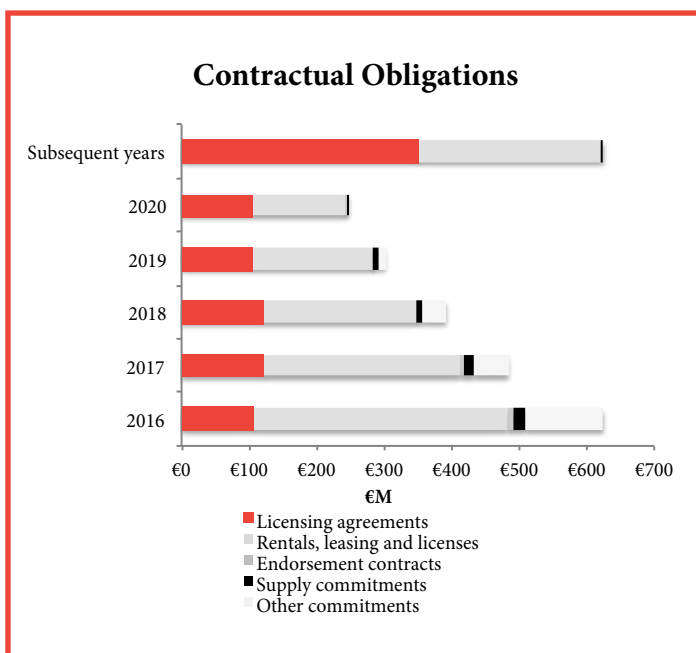
DEBT

- Historically, Luxottica was highly leveraged due to making several large strategic acquisitions. Total long-term debt peaked in 2008 at €2.51B. However, the Company has since reduced this position by approximately -34% bringing total long-term debt to €1.66B*. Over the same period Luxottica's debt/equity ratio improved from 132% to 35%.
- Net Debt to EBITDA ratio = 0.5x, lowest in the last 20 years (Financial covenants: Net Debt/EBITDA < 3.5x).
- The next bond matures (€500M) on 19 March 2019.
- Luxottica has a S&P Long-term Credit Rating of A- for the Company and its bonds.



LUXOTTICA: CONTRACTUAL OBLIGATIONS

- Luxottica enters into licensing agreements with luxury brand owners for the production, design and distribution of sunglasses and prescription frames. These typically have terms ranging from 4 to 10 years, and royalty fees generally 6% to 14% of net sales.
- The majority of the Company's contractual obligations are leases for the various retail stores, plants, warehouses, office facilities and equipment, also the occupancy cost for the operation of stores within the major retail chains in the US (e.g. Macy's), licensing agreements with the various luxury brands and endorsements.
- We have also listed Luxottica's maturity profile of the various liabilities. As noted earlier, the Company has significantly reduced its debt levels in recent years.



Maturity of Liabilities

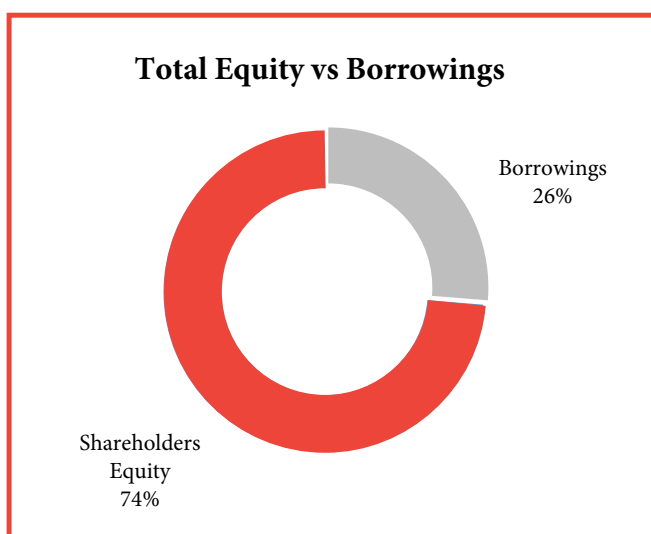
As at 31 December 2015	<1yr	1-3yrs	3-5yrs	5yrs+
Debt	€50.4M	€50M	€550M	€500M
Finance lease	€1.1M	€0.9M		
Derivative financial instruments	€2.1M			
Accounts payable	€407.5M			
Other current liabilities	€664.9M			
Total:	€1,126M	€50.9M	€550M	€500M



LUXOTTICA: EQUITY OWNERSHIP

EQUITY

- Number of Shares Outstanding = 479,771,821*
- Total Equity = 5.28B**
- Market Capitalisation = €25.10B*
- Owner and Executive Chairman Mr. Del Vecchio is the principal stockholder and controls 66.49% of the voting power through his company Delfin S.a.r.l. Thus, Mr. Del Vicchio has significant influence over the direction of the company. Giorgio Armani is the second largest shareholder and collectively holds 4.95% of the total outstanding shares either directly or indirectly through Giorgio Armani S.p.A. The remaining shareholders are relatively diverse and hold only nominal positions in percentage terms.



Top 10 Shareholders*	%*
Leonardo Del Vecchio	66.49%
Giorgio Armani	4.95%
Jupiter Asset Management	1.06%
Norges Bank Investment Management	0.84%
The Vanguard Group	0.74%
Allianz Global Investors	0.48%
Capital World Investors	0.47%
RBC Global Asset Management (UK)	0.44%
BlackRock Institutional Trust Company	0.42%
MFS Investment Management	0.35%
	76.24%

LUXOTTICA: INSIDER BUYING

- In July/August 2016, founder, controlling share and executive chairman Mr. Del Vecchio (through Delfin Sarl) acquired a total of 908,000 shares in Luxottica at an average cost of €43.14 representing a €39.2M investment in the Company.
- While this amount is minor when compared to Mr. Del Vecchio's overall holdings in the Company, it is significant as there is no reason for Mr. Del Vecchio to increase his stake in the Company other than if he believes the market is currently undervaluing the Company. As the old Wall Street adage suggests: *“There are many reasons insiders sell, but only one reason they buy”*.



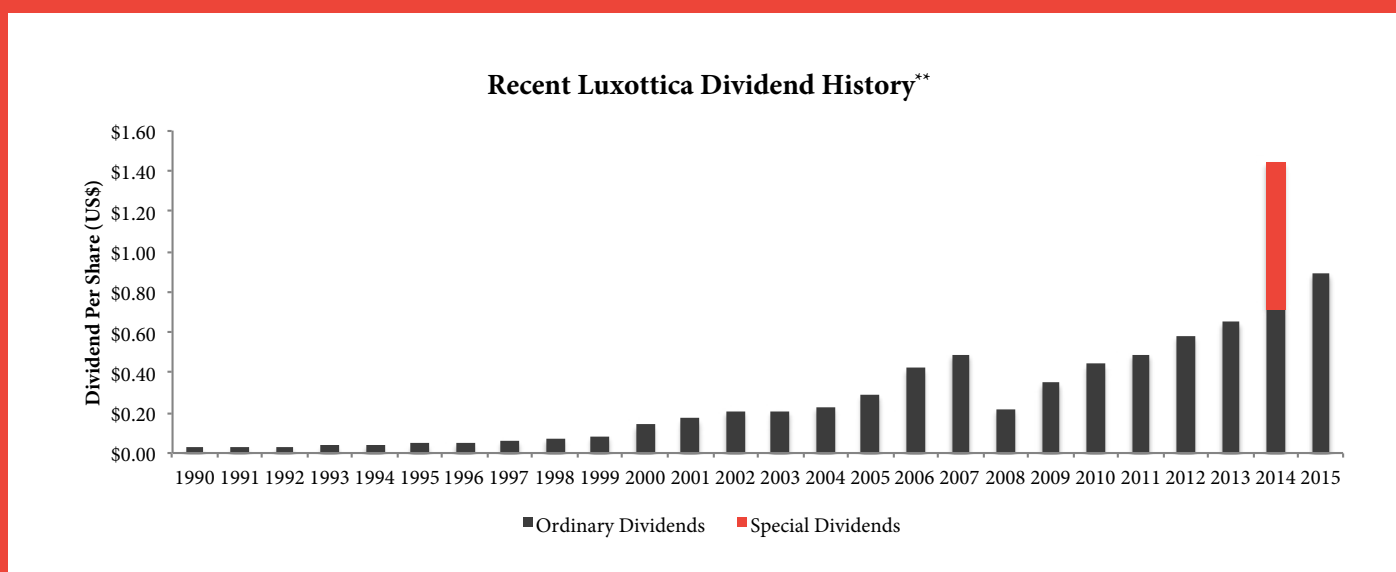
LUXOTTICA: CAPITAL RETURN POLICY

DIVIDENDS

- The Company does not have a published dividend policy. However, it states on its website that “*The Luxottica Group has always pursued the creation of shareholder value, as testified by its history to distribute a steady portion of the Group’s earnings in the form of dividends*”.
- The Company has distributed 50% of its net income as ordinary dividends for the last seven years, and we expect this to continue into the future. Current Gross Dividend Yield = 1.77%*

SHARE BUYBACK PROGRAM

- The Company currently does not have an active share buyback program, as it has just terminated its share buyback program announced on 24 May 2016, where the Company repurchased 5M shares equal to 1.033% of the issued share capital.



* Based on a share price of €50.30 as at 6 December 2016

** www.luxottica.com/en/investors/dividends

LUXOTTICA: COMPANY CULTURE / WORKPLACE

- We investigated Glassdoor (www.glassdoor.com) where employees and former employees anonymously review companies and their management.
- We attribute Luxottica's less stellar scores to the fact that the majority (61%) of its employees work in retail distribution. We also suggest the uncertainty as a result of recent management turnover is the primary reason for the low approval rating of the CEO (47%).

glassdoor Jobs Companies Salaries Interviews

Luxottica City, State, or Zip (Optional) Companies

LUXOTTICA

Luxottica

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Luxottica Overview

Website	www.luxottica.com	Headquarters	Milan (Italy)
Size	10000+ employees	Founded	1961
Type	Company - Private	Industry	Manufacturing
Revenue	\$5 to \$10 billion (USD) per year	Competitors	Safilo, Marcolin, Marchon Eyewear


When it comes to eyewear, Luxottica Group has it made in the shades. The world's largest eyewear firm, Luxottica designs, makes, and sells eyeglass frames and sunglasses, offering more than 20 licensed designer brands (Burberry, Chanel, Tiffany) and a dozen ... [Read more](#)

Luxottica Reviews

3.1 ★★☆☆ Rating Trends

60% Recommend to a friend

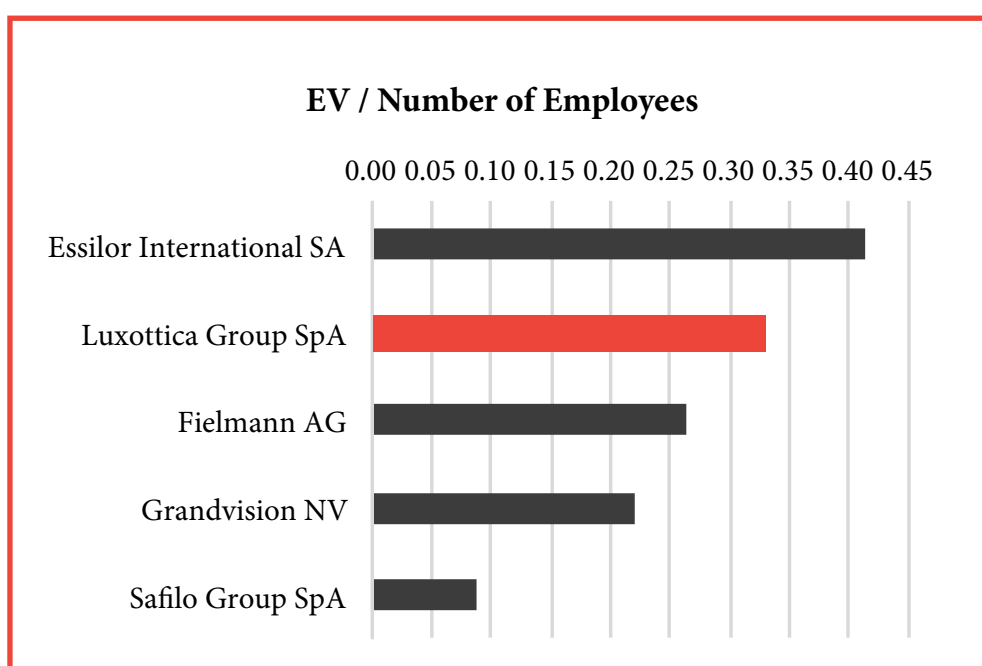
47% Approve of CEO

 Massimo Vian
5 Ratings

LUXOTTICA: EMPLOYEE EFFICIENCY

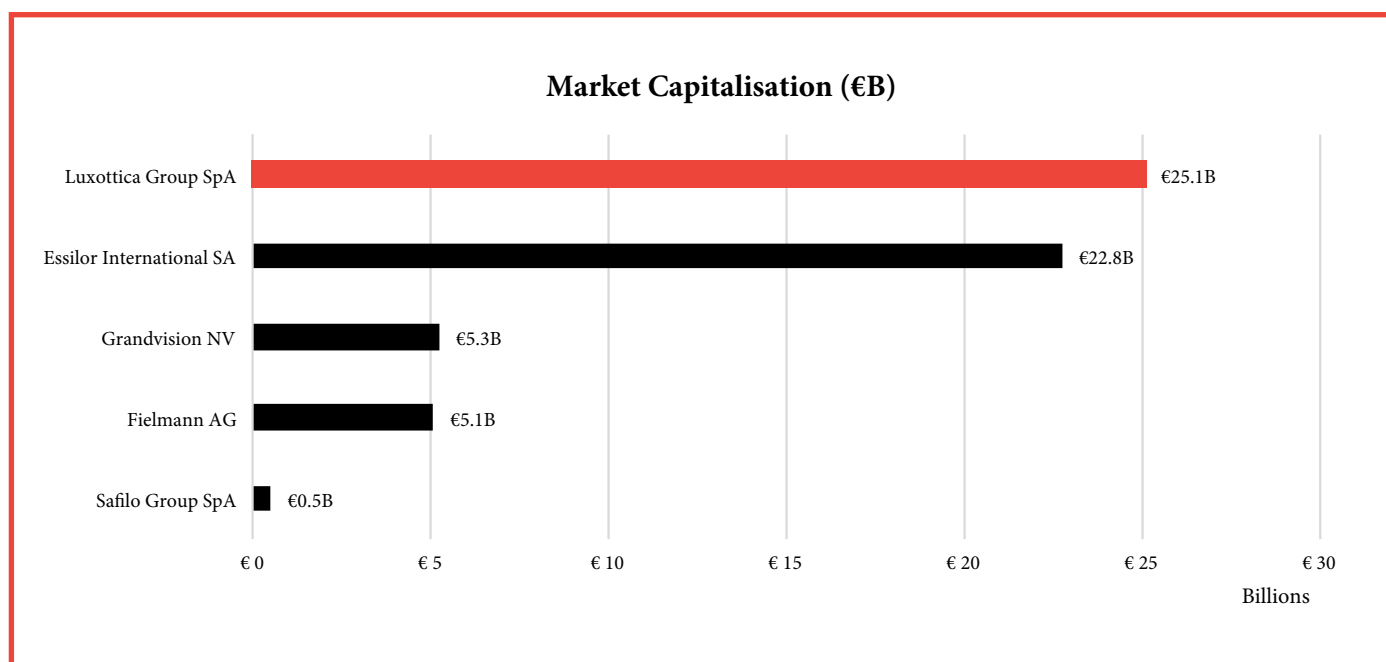
- We utilise the Enterprise Value to Employee Ratio to measure how worker-intensive a business or an industry is. We also use this metric to compare businesses within the same industry to rank their relative efficiency.
- With the largest retail eyewear distribution network in the world, Luxottica employs the most employees among its peers. However, due to its superior business model and economies of scale, it is still able to achieve the second highest efficiency ranking.
- We also acknowledge Essilor's impressive achievement, with the highest employee efficiency among its peers.

Company Name	Current EV (€M)	Number of Employees	EV / Number of Employees
Essilor International SA	€ 25,148	61,000	0.41
Luxottica Group SpA	€ 25,942	79,000	0.33
Fielmann AG	€ 4,721	17,928	0.26
Grandvision NV	€ 6,172	27,991	0.22
Safilo Group SpA	€ 627	7,072	0.09
Median			0.26
Mean			0.26



LUXOTTICA: COMPARABLE COMPANIES – MARKET CAPITALISATION

- Luxottica is currently the largest listed eyewear company in the world - Market Capitalisation = €25.1B*.
- Essilor is a close second, with a market capitalisation of €22.8B.
- It is interesting to note that Safilo, which generated a revenue of €1.28B in 2015 only has a market capitalisation of €527M. In the meanwhile, Luxottica which generated ~7 times revenue (€8.8B) of Safilo has a market capitalisation that is ~48 times that of Safilo.
- This is implicit evidence of the quality of the business that Mr. Del Vecchio has built over the past decades, and the tremendous value he has created for shareholders.



DKNY
DONNA KARAN NEW YORK



* As at 12 December 2016

Data Source: Thomson Reuters Eikon as at 12 December 2016

LUXOTTICA: COMPARABLE COMPANIES – MARGINS AND RETURNS (1)

- Luxottica was instrumental in transitioning eyewear as a category toward high end fashion and integral in driving the attractive industry-wide margins.
- Through the establishment of a strong brand portfolio and focusing on efficiency and optimisation initiatives across all stages of the value chain, Luxottica has held its gross margin above 65% for the past 20 years.
- On a relative basis, Luxottica's margins are in line with the industry peer group. However, with its significantly larger scale, it has become a very profitable business.

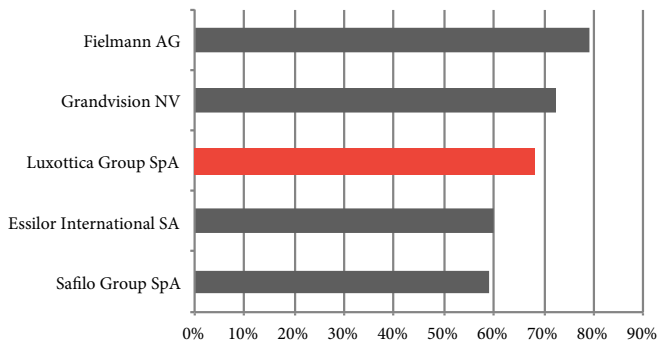
Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA
Essilor International SA	11.3%	59.7%	23.9%	17.9%	13.8%	7.1%
Fielmann AG	12.7%	79.2%	21.5%	18.5%	25.3%	19.7%
Grandvision NV	6.6%	72.7%	15.8%	11.2%	28.3%	8.6%
Safilo Group SpA	-4.1%	59.2%	6.4%	3.2%	-4.4%	-3.3%
Luxottica Group SpA	9.1%	67.9%	21.7%	16.3%	14.9%	8.4%
Median	9.1%	67.9%	21.5%	16.3%	14.9%	8.4%
Mean	7.1%	67.7%	17.9%	13.4%	15.6%	8.1%

Data Source: Thomson Reuters Eikon as at 12 December 2016 (Data = Last Fiscal Year)

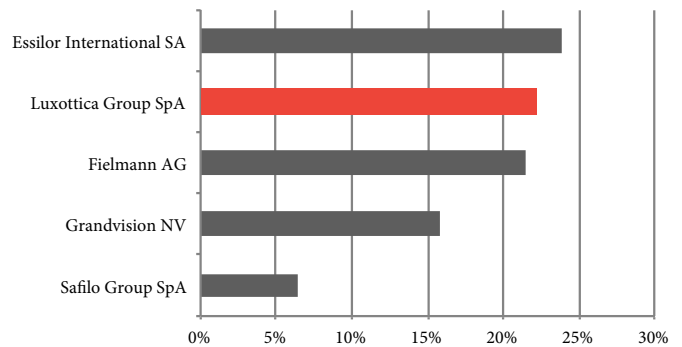


LUXOTTICA: COMPARABLE COMPANIES – MARGINS AND RETURNS (2)

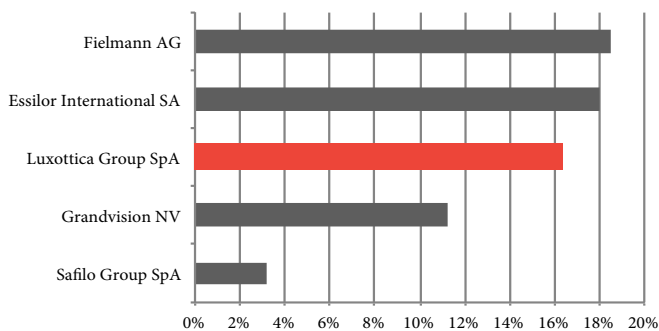
Gross Profit Margin



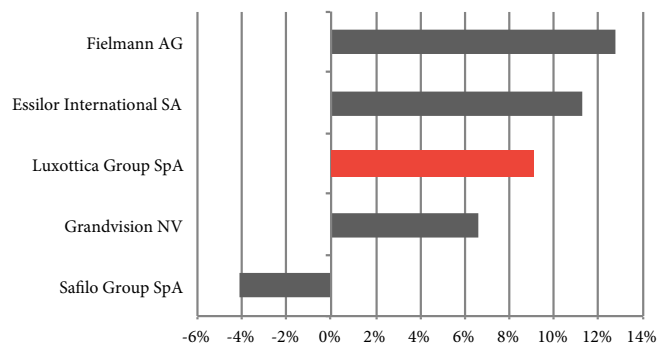
EBITDA Margin



EBIT Margin



Net Profit Margin



LUXOTTICA: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Luxottica has one of the most conservative and robust balance sheet among its peers. Coupled with Luxottica's superior earnings power makes it one of the least leveraged listed eyewear companies in the world.
- This allows the Company to move fast strategically when needed.

Company Name	Net Debt To EV	Net Debt To EBITDA	Total Debt to Total Equity	Quick Ratio
Essilor International SA	8.7%	132.4%	45.2%	0.76
Fielmann AG	0.0%	0.0%	0.2%	2.03
Grandvision NV	14.6%	175.5%	146.1%	0.49
Safilo Group SpA	16.5%	123.5%	17.7%	1.07
Luxottica Group SpA	4.2%	56.2%	34.6%	1.05
Median	8.7%	123.5%	34.6%	1.05
Mean	8.8%	97.5%	48.8%	1.08



LUXOTTICA: COMPARABLE COMPANIES – VALUATION/S

- As at the time of this report, Luxottica's stock price has moved up +29% from its recent low of €39.92, which was around the time when Elevation Capital established its position in Luxottica.
- Note: When Elevation Capital acquired its position in Luxottica the P/E multiples are as follows:
 - 7 October 2016 at 25.3x P/E (21.1x Forward 12M P/E)
 - 13 October 2016 at 25.6x P/E (21.3x Forward 12M P/E)
- On a relative basis, the stock is trading at a slight premium to its peer group average. However, it is our view that Luxottica should trade at a even higher premium to its peer group average due to its superior business model, and also the potential catalysts (e.g., a mega merger with Essilor).

Company Name	P/E	Forward P/E	Price / Sales	EV / EBITDA	Price / Book	Gross Dividend Yield
Essilor International SA	32.9	27.9	3.3	15.7	3.8	1.1%
Fielmann AG	34.6	31.1	3.8	16.9	7.9	2.9%
Grandvision NV	32.8	22.4	1.6	12.2	6.4	0.6%
Safilo Group SpA		18.3	0.4	7.7	0.5	0.0%
Luxottica Group SpA	36.2	28.9	2.8	13.5	4.7	1.7%
Median	33.8	27.9	2.8	13.5	4.7	1.1%
Mean	34.1	25.7	2.4	13.2	4.6	1.3%



LUXOTTICA: KEY COMPETITORS - FRAMES

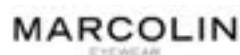


Safilo (Listed: Italian Stock Exchange)

Safilo is a fully integrated Italian eyewear manufacturer and distributor and is Luxottica's closest direct competitor. Like Luxottica, Safilo's predominant exposure is within the luxury goods sector holding premium brands across the sunglasses, optical frames and sports eyewear segments. Proprietary brands include Carrera, Polaroid, Smith, Safilo and Oxydo while licensed brands include Dior, Fendi, Gucci, Banana Republic, Bobbi Brown, BOSS, Céline, Fossil, Givenchy, J.Lo by Jennifer Lopez, Jack Spade, Jimmy Choo, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max&Co., Pierre Cardin, Saks Fifth Avenue and Tommy Hilfiger. Safilo's products are sold through 31 owned subsidiaries and local distributors across Europe, America and Asia. In 2015, Safilo generated €1.28B in sales.

Marchon Eyewear (Unlisted)

Marchon is one of the world's largest manufacturers and distributors of quality eyewear and sunwear. The company is headquartered in New York City, with manufacturing facilities in Italy, Japan, and China. The US based company markets its products under prestigious brand names including: Calvin Klein, Chloé, Columbia Sportswear, Diane von Furstenberg, Dragon, Etro, Flexon, G-Star RAW, Karl Lagerfeld, Lacoste, Liu Jo, Marchon NYC, Marni, MCM, Nautica, Nike, Nine West, Salvatore Ferragamo, Sean John, Skaga, and Valentino. Marchon distributes its products through numerous local sales offices in more than 100 countries. In 2014 Marchon recorded worldwide eyewear and sunwear sales of approximately US\$1B .



Marcolin (Unlisted)

Marcolin SpA is an Italian-based company which designs, manufactures and distributes eyewear products. Marcolin has a balanced brand portfolio between luxury and mainstream products. The luxury segment includes fashion brands such as Tom Ford, Tod's, Balenciaga, Roberto Cavalli, Montblanc, Zegna, Pucci and from 2016 Moncler and Omega. The mainstream segment includes brands such as Diesel, Swarovski, DSquared2, Just Cavalli, Timberland, Cover Girl, Kenneth Cole New York and Kenneth Cole Reaction. In addition, Marcolin owns its traditional house brand "Marcolin" as well as National and Web. In 2015, the Marcolin sold an estimated 15M pairs of eyeglasses and sunglasses worldwide, with sales of approximately €435M .



De Rigo (Unlisted)

Di Rigo was founded in 1978 and is an Italian eyewear designer, manufacturer and distributor. Proprietary brands include Lozza, Police, Sting and Lozza Sartoriale, which are complimented by licensed brands Blumarine, Blugirl, Carolina Herrera New York, CH Carolina Herrera, Chopard, dunhill, Escada, Fila, Furla, Lanvin, Loewe, Nina Ricci, Tous, Trussardi, Zadig&Voltaire. The group's products are distributed in approximately 80 countries, mainly in Europe, Asia and the Americas. De Rigo is also active across optical retail (especially in Europe) with owned chains including General Optica (Spain), Mais Optica (Portugal), Opmar Optik (Turkey) and its subsidiaries Boots Opticians (UK) and Sewon (Corea). In 2015, De Rigo achieved sales of approximately €403M .

LUXOTTICA: KEY COMPETITORS – LENS



Essilor International (Listed: Paris Stock Exchange)

Essilor is an ophthalmic optics company. The company designs, manufactures and markets a range of lenses to improve and protect eyesight. It also develops and markets equipment for prescription laboratories, and instruments and services for eye care professionals whilst it has a growing exposure to the sunglass business and the online optical retail. It operates through three segments: Lenses and Optical Instruments, Equipment, and Sunglasses & Readers. Essilor operates approximately 32 plants, over 490 prescription laboratories, edging facilities and local distribution centres, and over five research and development centres across the world. Essilor's flagship brands include: Varilux, Crizal, Optifog, Xperio, Definity, Kodak and Foster Grant. In 2015, Essilor generated revenues of approximately €6.7B.



Carl Zeiss Meditec (Listed: German Stock Exchange)

Carl Zeiss Meditec "Zeiss" is a German-based medical technology solutions supplier. Operating ten sites around the world, Zeiss maintains two core business segments. The Ophthalmology business is subdivided into a systems unit which covers a range of laser and diagnostic systems, and a surgical unit which combines the company's activities in ophthalmic implants and disposables (lenses). The Microsurgery business offers surgical microscopes and visualisation solutions for ear, nose and throat surgery, or neurosurgery. Its microsurgery products are mainly used as supporting equipment for the removal of tumours, as well as the treatment of vascular diseases and functional disorders. The portfolio is rounded off by investments in future technologies such as intraoperative radiotherapy. In January 2014, it acquired Optronik Optik ve Elektronik Cihazlar Ticaret ve Sanayi AS, a wholesaler of ophthalmology products, as well as a 100% stake in Aaren Scientific Inc, a producer of intraocular lenses. In 2015, Zeiss generated revenues of approximate €1B.



Hoya Corporation (Listed: Tokyo Stock Exchange)

Hoya Corporation "Hoya" is a diversified, multinational company and supplier of innovative and indispensable high-tech and healthcare products. Based in Japan, the company operates through two core business segments. Hoya's Life Care segment focuses on health care areas such as eyeglass lenses and the operation of contact lens retail stores, as well as medical related areas such as intraocular lenses for cataract surgery, medical endoscopes, surgical equipment and artificial bones and implants. Hoya's Information Technology segment focuses on electronics products for the semiconductor industry and LCD panels, glass disks for HDDs and optical lenses for digital cameras and smartphones. The group comprises over 100 subsidiaries and affiliates and employs over 34,000 people worldwide. In 2015, Hoya generated total revenues of approximately ¥506B (€3.8B).



LUXOTTICA: KEY COMPETITORS – RETAIL DISTRIBUTION



GrandVision (Listed: Amsterdam Stock Exchange)

GrandVision is an optical retail company based in the Netherlands which operates c.6,200 stores in 44 countries under 34 local banners. Through their retail outlets, GrandVision provides eyesight examination and prescription services delivered by optometrists or opticians in addition to in-house branded and third party branded prescription frames, lenses, contact lenses and sunglasses. Well-known retail banners include: Apollo-Optik (Germany), Generale d'Optique and GrandOptical (France), Pearle (Netherlands, Belgium and Austria) Eye Wish Opticiens (Netherlands), Vision Express (UK, Ireland, Poland, Hungary, the Middle East and India), and Solaris (International). In 2015, GrandVision generated €3.2B in revenue.



Fielmann (Listed: German Stock Exchange)

Fielmann is a German-based optical company that manufactures and sells a range of various spectacles, including bifocal and varifocal optical glasses, sunglasses, spectacle frames and contact lenses. Fielmann is Europe's largest optician providing consumers 'fashion eyewear at a fair price'. The company estimates that 23M people wear Fielmann glasses. The company is also involved in the investment in and operation of hearing aid companies. In 2015, Fielmann generates total revenues of €1.3B.



Vision Source

Founded in 1991, Vision Source is a North American optometric service network of independent optometrists consisting of c.3,500 eye care industry influencers. Vision Source operates under a franchise model where member franchisees pay Vision Source a fee based on a percentage of their gross income. In return, Vision Source provides optometrists access to new innovative technologies, practice management tools, marketing assistance and supply chain programs (where franchisees benefit from the enhanced purchasing power). In 2015, Vision Source members reported a combined US\$2.51B in retail sales, professional services, and managed vision benefits, making them the second largest optical retailer in the U.S. behind Luxottica. In July 2015, the Essilor of America Inc (the U.S. subsidiary of Essilor International) announced the acquisition of Vision Source from Brazos Equity Partners LLC for an undisclosed amount.



Wal-Mart

Wal-Mart's first vision centre was opened in 1990. It has since expanded its vision care services through retail banner Walmart Vision Center (c. 3,000 company owned units), and Sam's Club Optical (c.582 units). Independent optometrist rent space within Walmart's retail outlet and are granted access to the groups wide customer base in addition to access to latest technology and state-of-the-art instrumentation. A Review of Optometry article (2009) cited a typical contract as being based on a three-year term and 20% gross fee income (which can be negotiated depending on Walmart's level of involvement in the business such as staffing). In 2015, Walmart optical stores generated an estimated US\$1.71B in revenues making it the third largest retailer in the US behind Luxottica and Vision Source.

LUXOTTICA: KEY RISKS (1)

MACROECONOMIC SLOWDOWN

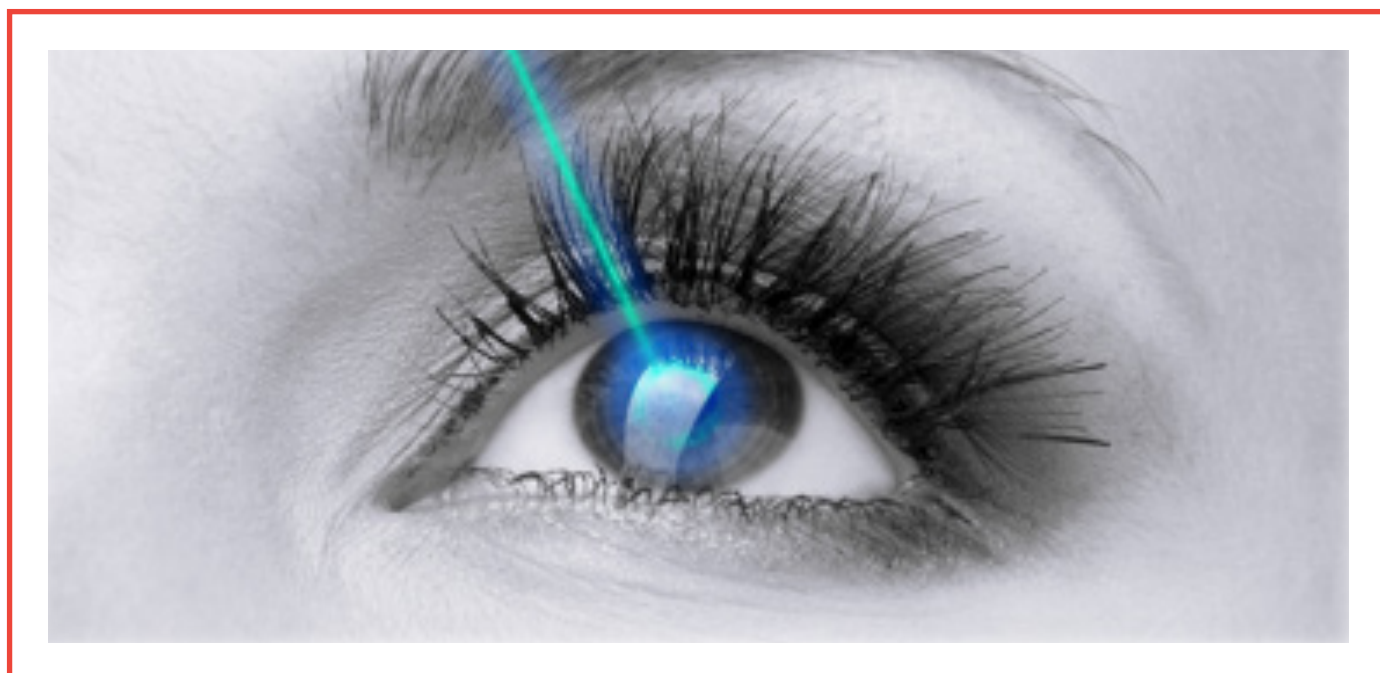
If macroeconomic conditions were to deteriorate, demand for Luxottica's products would decline adversely affecting the business performance. This is particularly true given Luxottica's exposure to the luxury goods sector (through their premium eyewear brands) and their reliance on discretionary spending and GDP growth.

SPECIFIC MARKET RISK

As a global Company, Luxottica is exposed to specific market risks, each defined by their own local economic and political environment, governing rules and regulations, and cultural influences, which must be considered given Luxottica's global footprint. It is worth noting Luxottica continues to be highly dependent on the North American market which represents approximately ~60% of sales. Any weakening within this market will have a significant impact on Luxottica's business.

SUBSTITUTION RISK

Should consumer preferences shift away from the use of traditional eyeglasses as a means of vision correction, and adopt alternatives such as contact lenses and laser eye surgery, Luxottica's business will be adversely impacted. The development of new technologies within the eyecare industry will be the driving force behind substitution risk, so far as it can increase accessibility, reduce price points and alter public perceptions of surgical alternatives through increased quality.



LUXOTTICA: KEY RISKS (2)

CURRENCY/FX

Primary revenue exposures are within the U.S. and Australian markets and as such a weakening in these currencies versus the Euro would decrease revenues and negatively impact Luxottica's bottom line. Similarly, Luxottica's principal manufacturing costs are incurred in Chinese Yuan and Euro, where a strengthening in the Chinese Yuan would increase Luxottica cost basis and negatively impact profitability.

INCREASED COMPETITION - MARGIN PLAYERS

Luxottica's business model has traditionally enabled the Company to have substantial influence over industry pricing operating as a near monopoly. The existence of this business model within frame manufacturing/retailing is unusual as barriers to entry are relatively low with low technical know-how/intellectual property required while there is no government regulation that usually facilitates a monopolistic structure of this kind. Recently, competition has been increasing within the industry with the entrance of new (discount) players, the development of the digital distribution channel, and diversification of existing players seeking to consolidate or establish vertically integrated business models. This threatens Luxottica's pricing power, challenging their market position - should Luxottica be unable to defend its position, margin erosion will follow with a decline in bottom line performance. The preservation of Luxottica's brands is of utmost importance. The strength of Luxottica's brands, alongside their vertical integration strategy, have been critical pillars in defending their strong market position.



LUXOTTICA: KEY RISKS (3)

BRAND RELATED RISKS

One of Luxottica's primary competitive advantages is the strength of its brands. Thus, any deterioration in brand equity will cause significant harm to Luxottica's business. Brand equity can be influenced by any number of factors such as counterfeiting, discounting, poor marketing, a decline in product quality or simply an inability to adapt to shifting consumer tastes. This is especially true for Luxottica's leading proprietary brands Ray-Ban and Oakley which represent c50% of wholesale revenues and approximately 40% of total revenues. A slowing of these two growth engines will significantly impact Luxottica's business.

GREY MARKET AND COUNTERFEITING

Grey market products (unintended distribution) and counterfeiting can severely affect sales and profits. These practices have the potential to cause significant long term harm to Luxottica and their brands because of discounting practices and quality implications. The threat of counterfeit is especially prevalent within the eyewear industry due to the relative ease with which product can be produced.



LUXOTTICA: DEFENDING ITS BRANDS (1)

RAY-BAN

Ray-Ban is Luxottica's leading brand accounting for c27% of Company revenues and has been a reliable source of growth for Luxottica with a c16% CAGR between 2005 to 2015. However, new low priced competitors, undisciplined discounting and grey market/counterfeit sales have raised questions as to the growth trajectory of the brand with Management forecasting lower growth of 8%-10% for FY2016 - most of which is expected to come from volume growth versus price increases.

In response, Luxottica has introduced defensive strategies such as zero discounts, Minimum Advertised Price (MAP) policies and exclusive distribution/retail agreements across all brands. MAP was introduced to Luxottica's North American market in April 2016 and prohibits wholesale clients, including bricks-and-mortar and online, to advertise products at a discount unless previously agreed upon by both parties. This only applies to advertising and does not relate to actual sale price. Where MAP is not possible, such as in the Europe where it is deemed illegal, Luxottica has introduced exclusive distribution agreements for local partners which provides greater control over product distribution.

Unsurprisingly, the implementation of such policies can have adverse performance impacts in the short term. In Q3-2016, MAP was the dominant factor in a declining North American wholesale market where revenues declined 11.6% on a constant currency basis. and sales to North American online retailers declined by approximately 60%. Management has stated that the short-term implications of MAP were greater than anticipated. However, early sales trends in October 2016 suggest a potential recovery within the channel is underway. Over the long term, these initiatives are expected to improve sales quality, drive unit price expansion and preserve brand equity allowing for enduring growth across all platforms. Already positive effects are being realised, using Amazon as market indicator, Luxottica's average discount was down from 37% in April 2016 to just 6% in September 2016.



LUXOTTICA: DEFENDING ITS BRANDS (2)

Coinciding with efforts to secure distribution channels, Luxottica continues to improve its ability to combat grey-market and counterfeit goods. To achieve this Luxottica works closely with customs organisations and law enforcement agencies, overseas suppliers and performs analysis of suppliers and stock, and maintains an open dialog with consumers who report concerns over fake or counterfeit product. More recently, Luxottica has implemented a traceability system, using RFID technology to intensify controls throughout the supply chain. The passive device is embedded in the frame and contains key information to uniquely identify each pair of glasses, from production to sales destination. Approximately 25% of Ray-Ban frames are now fitted with this technology with Luxottica intending to roll the product across Oakley in the near future. In 2015, Luxottica aided local law enforcement and custom officials in the seizure of 4.8M units of counterfeit Ray-Bans. It also closed 17,000 websites and removed 375,000 marketplace listings selling counterfeit products.

OAKLEY

Luxottica's second most important brand is Oakley which was acquired in 2007 prior to the GFC. Oakley has struggled to transition the brand into current operations where prior to the acquisition, the two companies directly competed in terms of production and distribution. Oakley has suffered from mixed results, facing many of the similar pressures as Ray-Ban, mentioned above. Luxottica has sought to combat this by aligning Oakley's operation with Luxottica's core business, integrating the brand into the Company's respective division. This process began in Q2 2015 and was completed in during the same financial year with a second wave of integration announced in FY16. Oakley's challenges were reflected in management revising FY16 growth targets down to 3%-5% from 8%-10% during an investor presentation in March 2016. Re-igniting growth and gaining traction with the younger consumers continues to challenge Oakley – during the Q3-16 earnings call, management cited Oakley's second round of integration as partially responsible for the 11.6% decline North American wholesale revenues due to the adverse impact within Oakley's sports channel. As with Luxottica's MAP policy, Oakley's repositioning affirms management preference to undertake short-term pain to reap long-term benefits – we expect this will provide further volatility in the Luxottica stock price in the near term.

In addition to these defensive strategies, Luxottica continues push the boundaries with R&D and product innovation to move brands forward and further generate brand equity. Recent examples include frame and lens technologies (Oakleys, Pryzm and Ray-Ban, Chromance) and digital diagnostic eye care services (Lenscrafters, Clarifye).



LUXOTTICA: KEY RISKS (4)

LICENSE RENEWALS

Luxottica operates a large number of accessible and premium luxury brand licenses. An inability to renew these licenses or negotiate them on the same or similar terms would adversely impact Luxottica's business. Brand license terms vary between 4 to 10 years, some with renewal provisions. In 2015 and 2014, no license represented more than 5% of Luxottica's sales.

In September 2014, Kering terminated its license agreement with Safilo to unlock the value within its smaller brands - this has raised the question as to whether other brands will consider in-house solutions as an alternative to licensing (Refer Appendix #3 for more details).

As an industry, eyewear is an important product category for luxury brands. Luxury eyewear has relatively low entry level price points and the ability to act as a recruitment product category across younger consumers with lower purchasing power. Thus, there are significant benefits to having full control over the strategic direction of a brand within the category - autonomy over product design, quality and distribution can build brand equity facilitating long-term growth. Yet we do not see Kering's manoeuvre as a threat to licensing and believe its position is unique to itself - the company benefits from owning a diverse portfolio of brands (as opposed to a single brand) and has the prerequisite scale through which it can extract cost synergies – qualities not present in most licensed brands today.

UNSUCCESSFUL M&A

Historically, Luxottica has been an active participant in M&A and with management seeking deal opportunities, the potential for transaction risk increases. Considerations which could adversely affect deal environment include disruptive behaviour from competitors, governmental regulation and rapid developments within the eyewear industry. Additionally, should Luxottica be unable to integrate future acquisitions into their business, or fail to extract intended synergies, value creation and earnings accretion would be compromised adversely impacting business performance.



LUXOTTICA: KEY OPPORTUNITIES (1)

OPTIMISING BUSINESSES

Over the past few years, Luxottica has targeted the expansion of its global footprint directing cash flow towards entering new markets/geographies. With these operations in place, Luxottica is shifting focus toward optimising and streamlining business services and infrastructure management. For example, moving toward leaner inventories, and increasing the speed with which it can serve its retail network customers. Additionally, Luxottica is investing in areas of the business in response to industry dynamics and the importance of being able to target and serve customers. In this end, Luxottica has invested in optimising distribution centres, expanding digital services and exploring new lens capabilities.

AUTOMATION

The Company has invested, and continues to invest in process automation in its production facilities. This improves the reliability of quality and margins based on productivity. We quote the following from Management*:

“The first robot line that we mentioned to you a year ago is now operational in our Rovereto manufacturing plant here in Italy and assembles the family of Ray-Ban Aviator, absolutely with full automation, no need for even a single second of human labor for that. We are scaling that up with three lines ... We will be able to fulfil 100% of the demand of Ray-Ban Aviator within the Group. Ray-Ban Aviator is not one model, it is a family and accounts for approximately 4% of our total manufacturing volumes, so a pretty astonishing increase of productivity.”



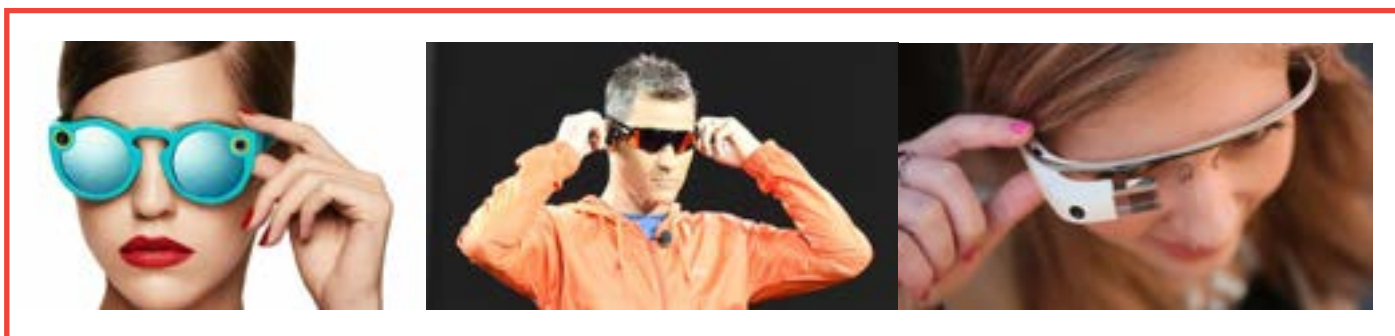
LUXOTTICA: KEY OPPORTUNITIES (2)

WEARABLE ELECTRONICS DEVICE

It is estimated by IDTechEx that the market for smart eyewear is forecast to reach almost US\$45B by 2026. With Ray-Ban and Oakley, Luxottica has over ten years of experience in wearable technology that has evolved from MP3 to HUD devices.

In recent years, Luxottica has been involved with some of the biggest names in technology in wearable technology. From the ill-fated Google Glass that was announced in 2014 to the recently announced partnership with Intel for Radar Pace, a smart eyewear platform featuring a real-time voice activated coaching system.

The Company has recently setup its R&D office in San Francisco, to work and manage relationships with the giants of Silicon Valley, such as Apple, Google, Intel and others.



CHINA

Currently, China is only 3% of Luxottica's total sales, mostly Ray-Ban. Management believes China is Luxottica's biggest opportunity for future growth. The Company established its first Ray-Ban store in China in 2015, and is expecting to have 100 Ray-Ban stores in China by the end of 2016. LensCrafters entered the Chinese market in 2006, and now has over 290 LensCrafters in the Greater China region.

It is interesting to note that the Company has decided to build its China business with its own 100 strong salesforce in China, instead of relying on local distributors.



LUXOTTICA: KEY OPPORTUNITIES (3)

M&A

Management stated (and we believe) that it is in Luxottica's DNA to actively pursue M&A opportunities.

We take our cue from the Chairman when he stated earlier in the year that "another area that has our attention is the lens world, which is worth as much as the frame market and delivers very high margins".

We believe the Company may revive the abandoned merger discussions (2013) between Luxottica and the world's largest lens manufacturer Essilor (ESSI.PA).

Other M&A opportunities are also possible such as expansion of the retail channel or continued consolidation within the frames business.

The collage features a timeline of Luxottica's acquisitions from 2000 to 2016, with each year and event accompanied by a blue 'Acquisition' button. The timeline includes:

- 2000: Luxottica lists on the Italian Stock Exchange (MILAN).
- 2001: Luxottica acquires Senghian that international and becomes the world's leading eyewear retailer.
- 2003: Acquisition of Optikal Group, a leading optical retailer in Australia and New Zealand.
- 2005: Luxottica consolidates its position in the emerging Chinese market with the acquisition of Wang Long Optical and Xindong Optical.
- 2007: Acquisition of Oakley Inc., a global leading sports, technology and lifestyle brand.
- 2011: Luxottica strengthens its position in Latin America with the acquisition of the Optima Group, comprising a Fine Planet retail brand.
- 2012: Acquisition of leading Brazilian eyewear player Grupo Yonick. Luxottica expands its eyewear specialty retailer Senghian that by rebranding more than 120 Fine Planet stores in Spain and Portugal.
- 2013: Acquisition of French luxury and contemporary eyewear player Alain Mikle International.
- 2014: Luxottica partners with Google in the development of Google Glass. Acquisition of Chameleon.
- 2015: Luxottica and Macy's announce a deal to open more Senghian that acquisition hubs.
- 2016: Luxottica acquires the remaining 49% of Senghian.

Overlaid on the timeline is a news article from Thursday, October 30, 2014, titled "Essilor and Luxottica end secret 18-months-long merger talks". The article reports that France's Essilor International and Italy's Luxottica Group have ended merger talks that took place in secret over the past 18 months. The reasons for ending the talks have not been revealed, but press reports indicate it was Luxottica more than Essilor that called off the talks. A major contributing factor could have been the turmoil Luxottica faces following the departure of its chief executive officer six weeks prior to cessation of the talks, followed by his successor departing six weeks later. The article also notes that the share market dropping the price of Luxottica shares by as much as 11 percent in one day, but later raising it almost back to where it was beforehand.

The article further discusses the potential benefits of a merger, stating that had the 18 months of talks led to a merger of the two companies – and that cannot be ruled out for the future – it would have created a giant organisation, with Essilor bringing to the table a huge range of facilities for ophthalmic and sunglass lens research, development and manufacturing (including recent acquisition Transitions), the same for instruments and equipment, and prescription laboratories and distribution facilities around the world, as well as a huge number of patents. For its part, Luxottica would have brought to the table a vast collection of owned or licensed frame and sunglass brand names, including Ray-Ban, Giorgio Armani, Persol, Vogue, Oakley, Bulgari, Brooks Brothers, Burberry, Dolce & Gabbana, Chanel, Coach, Polo Ralph Lauren, Stella McCartney, Tiffany & Co and Versace. Also, frame and lens manufacturing capacity and supplier contacts, wholesale outlets and its prized retail outlets worldwide, including OPSM here and in New Zealand, Sunglass Hut worldwide, David Clulow in the United Kingdom, and United States retail companies Lenscrafters, Pearle Vision, Sears Optical, and Target Optical.

LUXOTTICA: KEY OPPORTUNITIES (4)

CUSTOMISATION/PERSONALISATION

Luxury brands have started to offer customisation and personalisation to make the customers feel connected and integrated with the brand experience.

Impressively, “Ray-Ban Remix” and “Oakley Custom” allow the customer to build and customise their own sunglasses, and have it delivered to their home in three days on average globally.

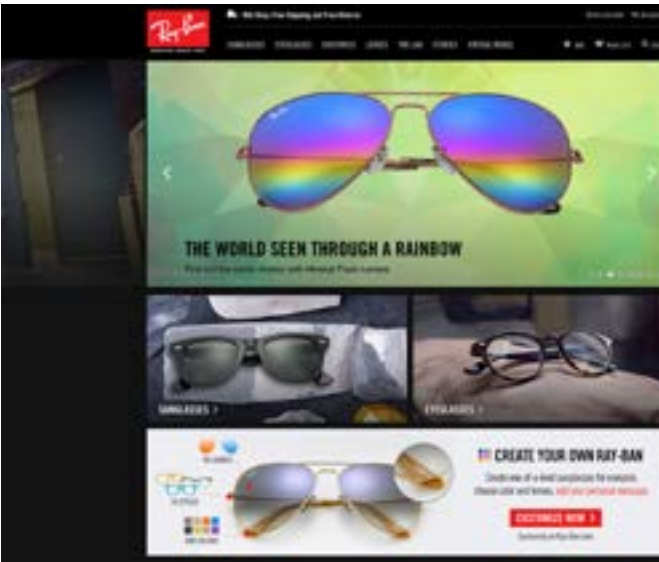
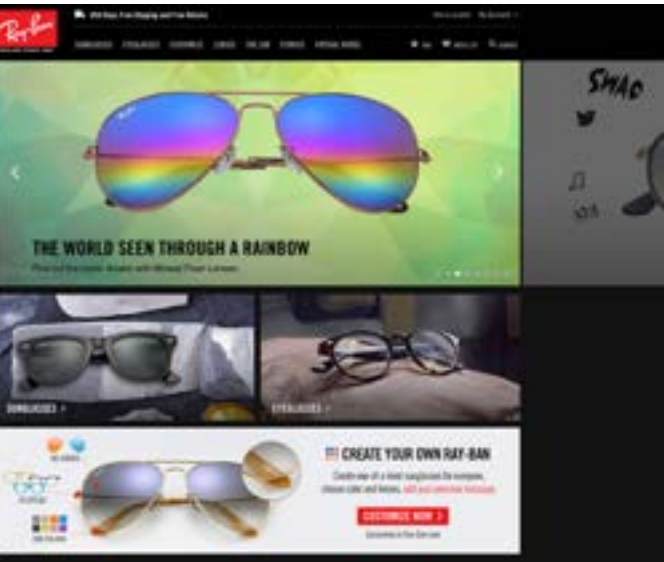
This should be a growth area for the Company in terms of revenue and margins.

E-COMMERCE

As noted before, Management is targeting to almost double its E-Commerce sales from 4% of total sales to be 7% in two years. We believe this is not only achievable, but could be exceeded with little incremental cost.



Looking hot at the Ray-Ban store. *Ray-Ban*
1680, NYC - November 21, 2016



LUXOTTICA: ELEVATION CAPITAL – CONCLUSION

INVESTMENT THESIS SUMMARISED

Luxottica is the undisputed leader in a structurally growing industry. There exists significant opportunities to increase market penetration while socio-economic drivers favour long-term growth. Qualitative factors such as the ongoing optimisation of the Company's vertical integration strategy and execution of current growth initiatives provide substantial headroom in this regard.

The high quality of the business, and its strong market position in a structurally growing industry are demonstrated in the Management's new "rule of thumb" for the next few years whereby it aims to achieve 1.5 times growth rate of profitability compared to top line growth.

We acknowledge that softness within the eyewear market may create volatile trading conditions in near term. However, ultimately the quality of the business has been established such that it can endure short-term uncertainty and still thrive in the long run. In contrast to popular belief, it is our view that the active involvement and leadership of Mr. Del Vecchio since 2014 is a positive for the Company and the other 33.5% of shareholders - we maintain that concerns towards succession planning should be viewed as "noise".

Luxottica currently trades at €50.30 per share*, with an EV/EBITDA multiple of 13.5x. We currently value Luxottica in normal trading conditions with an Intrinsic Value Estimate range of €50.96 - €65.90. From the Elevation Capital Value Fund's cost basis of US€40.65 per share, our valuation/s represent upside potential between +25.4% to +62.1%.



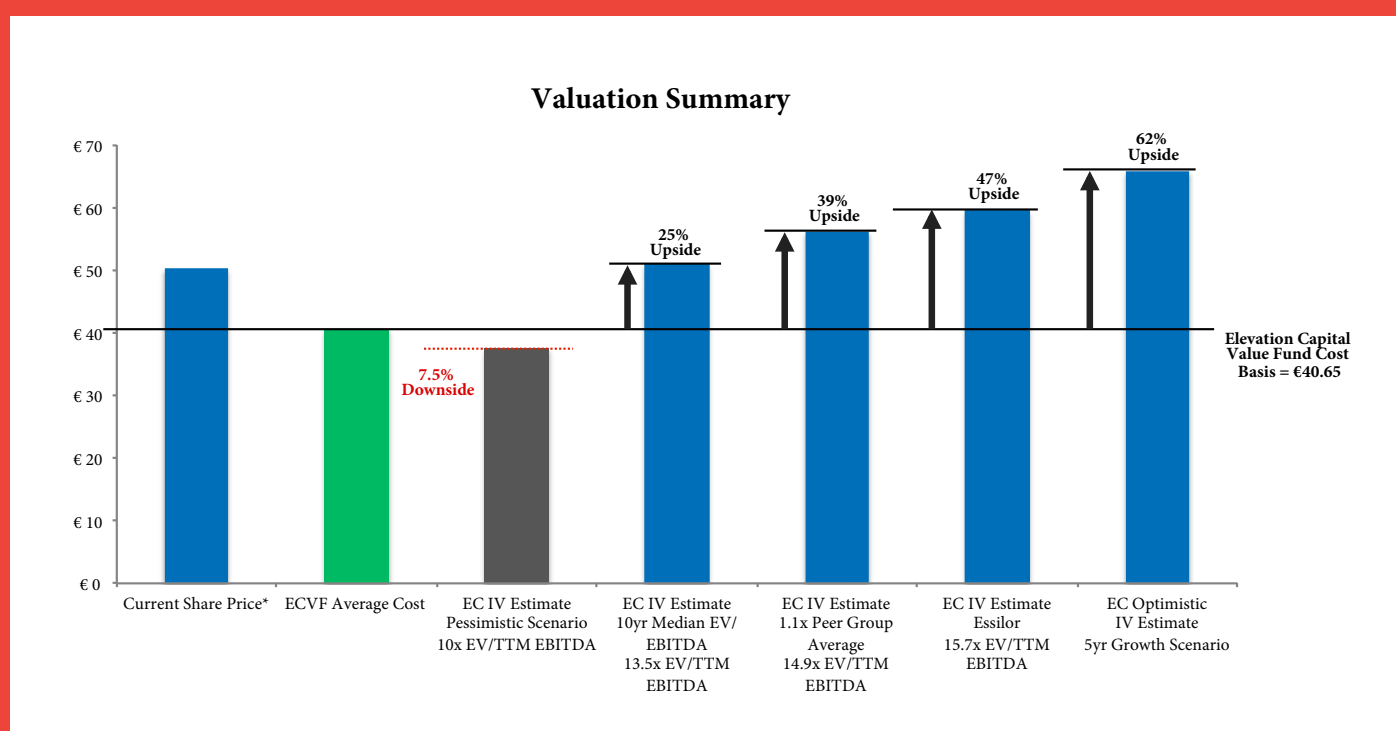
* Based on 12 December 2016 Share Price

LUXOTTICA: ELEVATION CAPITAL – ESTIMATED INTRINSIC VALUE RANGE

€37.62 – €65.90 PER SHARE

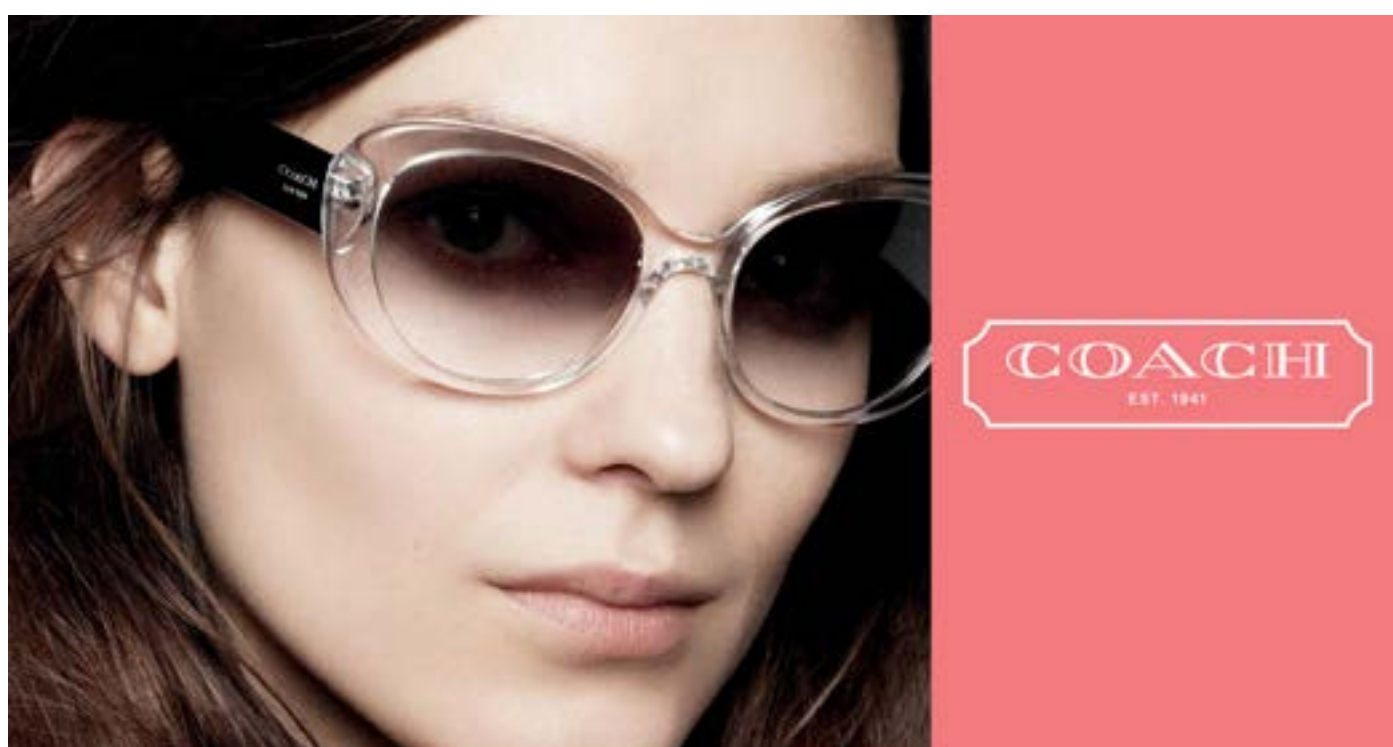
Downside/Upward Potential Range:
(vs Elevation Capital Cost Basis)

-7.5% - +62.1%



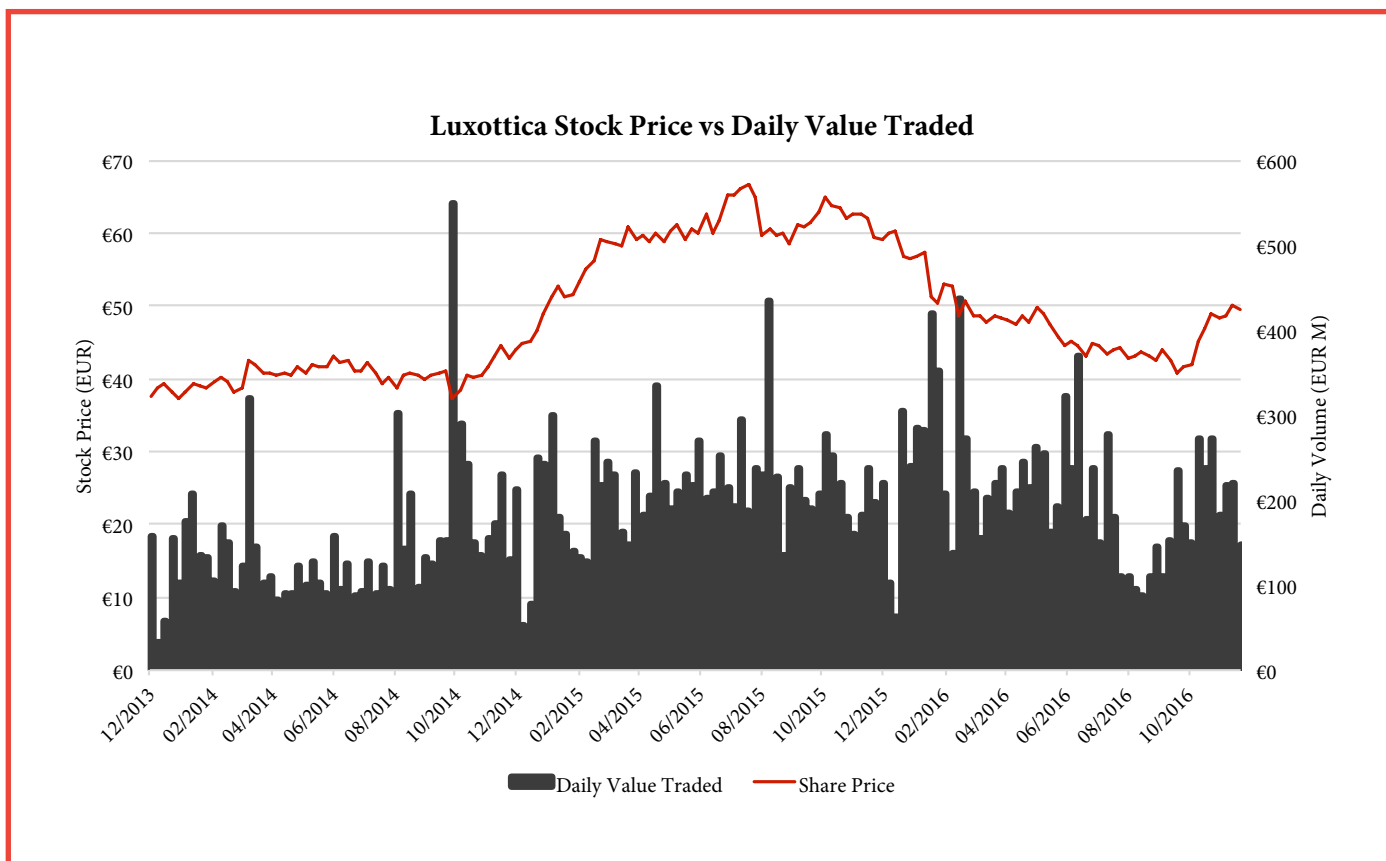
LUXOTTICA: ASSUMPTIONS FOR THE ESTIMATED INTRINSIC VALUES

Scenario	Assumptions
Pessimistic Scenario	We applied an EV/EBITDA multiple of 10x as the Company has not traded below 10x in the past ten years except during the GFC. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
10yr Median EV/EBITDA	This is one of the “neutral” scenarios where we used Luxottica’s median EV/EBITDA multiple of 13.5x for the past ten years. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
1.1x Peer Group Average	This is also one of the “neutral” scenarios where we believe Luxottica should at least trade at a 10% premium to its peer group. Currently, the peer group is trading at an average EV/EBITDA multiple of 13.5x, suggesting a 14.9x EV/EBITDA multiple for Luxottica. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
Essilor	This is a merger scenario where we believe the value of Luxottica’s shares could be trading at if Luxottica merged with Essilor. We apply Essilor’s current EV/EBITDA multiple of 15.7x to suggest the potential significant benefits/synergy from the merger. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
Optimistic/Growth Scenario	<p>We applied a 5% growth rate to TTM EBITDA to produce a forecast FY2021 EBITDA estimate of €2,421M. We then applied Luxottica’s 10yr Median EV/EBITDA Multiple of 13.5x to generate our optimistic scenario valuation.</p> <p><i>We would note our growth rate assumption is conservative, as the Company expects to grow its top line between 5%-6% (at constant forex) for 2016, and mid-to-high single digit for the longer term. <u>It also expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term.</u> Based on Company assumptions, the lower bound for FY2021 EBITDA estimate (at constant forex) is €2,713M, which currently is 12% above our estimate.</i></p>

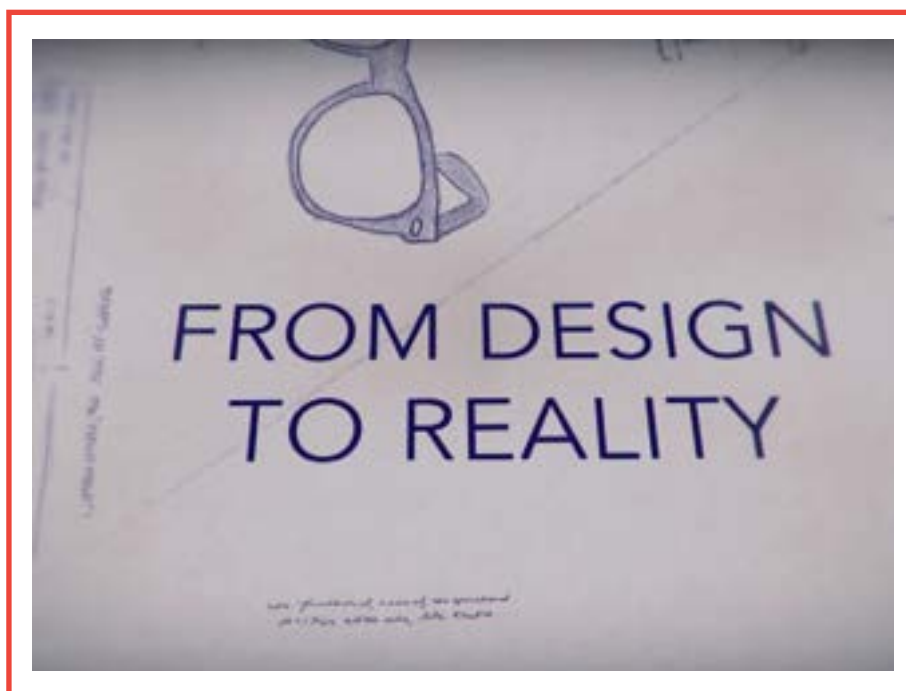


LUXOTTICA: LIQUIDITY

- The 3 year average daily trading volume in Luxottica totals €191M (~0.8% of current market cap of €25.1B*).



APPENDIX #1: VIDEOS ON LUXOTTICA



LUXOTTICA KEY FACTS (2015)

<https://www.youtube.com/watch?v=jYazrUxmYj4>

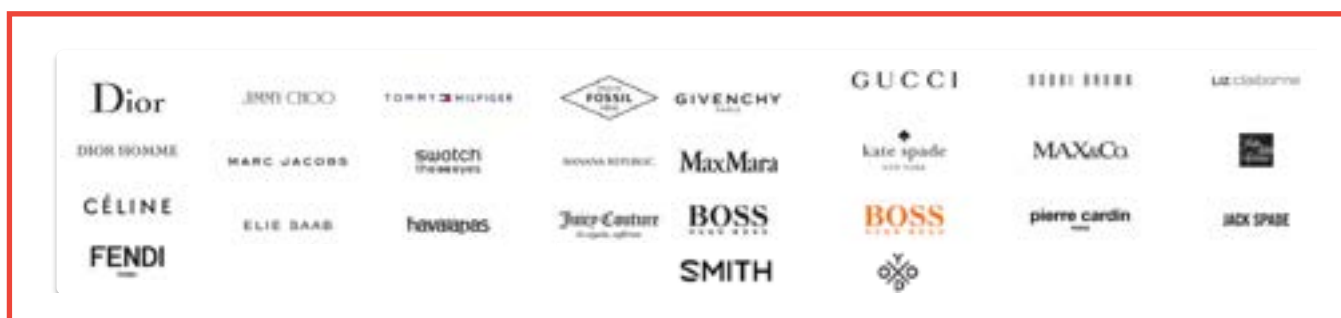


60 MINUTES ON LUXOTTICA

<https://www.youtube.com/watch?v=voUiWOGv8ec>

APPENDIX #2: SAFILO GROUP SPA

- Safilo Group SpA (SFL:IM) is an Italian-based manufacturer of sunglasses and prescription eyewear and is the second largest player in the global premium eyewear industry. The Company manages a unique selection of proprietary and licenced brands (detailed below).
- It is undoubtedly clear that Safilo is fundamentally cheap. However, it is important to consider the Company's size, position within the market, and profitability. Safilo is the weaker of the two major players in the global eyewear market and is structurally inferior to the Company's largest competitor Luxottica, who is nearly 50 times the size based on market capitalisation.
- The valuation gap may seem unfounded based on sales where Safilo achieved total annual sales of €1.3B in 2015 compared to LUX's €8.8B. However, the economies of scale that Luxottica has successfully exploited are clearly evident when looking at the Company's bottom line. In 2015, Safilo reported a headline loss of €25.6M vs Luxottica's profit of €1.3B.
- Also, there are clearly areas of concern, with deeply rooted issues from 2009 that continue to plague Safilo. We undoubtedly prefer Luxottica who have established clear competitive advantages which we believe mitigate many of the risks prevalent in Safilo.
- An investment thesis in Safilo marks a clear value play (potential M&A catalyst). However, it is reliant on continued turnaround efforts to bear fruit – something management has been unable to prove with a measured degree of consistency.
- The recent renewal of the Dior license (on 12 December 2016) until 2020 has mitigated a sizeable risk in Safilo. Accordingly, we plan to undertake further research into Safilo, as we believe it may be an interesting M&A target for the likes of Essilor, but remain sidelined at the time of writing.



APPENDIX #3: KERING ENTERING EYEWEAR INDUSTRY

- In September 2014, Kering terminated its license agreement with Safilo to start building its in-house eyewear capacity.
- This has raised the question as to whether other brands will consider in-house solutions as an alternative to licensing.
- Kering took control of its Alexander McQueen and Bottega Veneta brands in 2015 with Gucci to be transferred in 2017; product design/development, marketing, sales, admin and HR components are now conducted in-house with manufacturing and logistics continuing to be outsourced.
- As stated in Kering's 2014 announcement, its brands' eyewear business placed it as one of the top five players in the industry.
- The key difference between Kering and other luxury players is that Kering has eleven brands that are active in the Eyewear category. This means that Kering is starting this process of partial insourcing with economies of scale and is more likely to be successful than smaller luxury players who have fewer brands in their portfolios, such as Prada.



APPENDIX #4: THINGS TO LOOK FOR IN 2017

KEY FOCUS POINTS FOR 2017

- Expansion of the supply chain footprint
- Strengthening of brand portfolio:
 - Prescription lens offering for Ray-Ban
 - New chapter for Oakley
 - Valentino launch on 1st January 2017
- Setting foundation for healthier and cleaner wholesale distribution
- Elevating the customer experience in retail
 - Evolving LensCrafters' footprint, from Macy's to the roll-out of the new design while enhancing omnichannel
 - Sunglass Hut's global journey takes shape in new markets
- E-Commerce: Deploying a new virtual try-on experience to be available via mobile in the US and Europe

2017 TIMETABLE

Date	Event
30 January 2017	Consolidated net sales for the 12M period ended 31 December 2016
1 March 2017	Consolidated results for Q4 2016; statutory and consolidated financial statements for fiscal year 2016
28 April 2017	Consolidated results for the three-month period ended 31 March 2017
24 July 2017	Consolidated results for the six-month period ended 30 June 2017
23 October 2017	Consolidated results for the nine-month period ended 30 September 2017

APPENDIX #5: RALPH LAUREN RENEWAL DEMONSTRATES STRENGTH

- Luxottica announced on 22 December 2016 the renewal of its exclusive license agreement with Ralph Lauren for another ten years – until 31 March 2027.
- In contrast, Safilo announced on 12 December 2016 the renewal of its licensing agreement with Christian Dior Couture to the end of 2020. ie., a four year extension.
- In our view, the different lengths of these extensions demonstrate the strength of Luxottica’s moat and Safilo’s weaker position.



Luxottica Group and Ralph Lauren renew eyewear license agreement

Milan (Italy), December 22, 2016 - Luxottica Group (MTA: LUX; NYSE: LUX) today announced the renewal of an exclusive license agreement with Ralph Lauren Corporation (NYSE: RL) for the development, production and worldwide distribution of sunglasses and prescription frames under certain Ralph Lauren brands, including Polo and Ralph Lauren. The ten-year agreement will extend to March 31, 2027, subject to the terms and conditions therein.

ELEVATION CAPITAL MANAGEMENT LIMITED PROCTER & GAMBLE COMPANY [PG:US]

Research Presentation released in March 2016





INVESTMENT SUMMARY:

SECOND LARGEST CONSUMER PRODUCTS COMPANY IN THE WORLD

Procter & Gamble Co. (PG:US, Market Capitalisation US\$ 223.26B) is the second largest consumer products company in the world. The Company has a global presence with products sold in more than 180 countries and territories worldwide with 60% of its sales derived from outside of North America. Products are primarily distributed through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, salons, e-commerce, high-frequency stores and pharmacies. In 2015, P&G generated US\$ 76.3B in sales revenue.

UNDERPERFORMING IN RECENT YEARS

Since 2008, P&G has struggled to navigate shifting trends within the consumer and household products industry. A lack of innovation, poor marketing support and ineffective pricing strategies has resulted in P&G conceding market share in many of its key categories. During this period, organic revenue growth stagnated while the Company's overhead costs structure remained high, negatively impacting revenues. In 2012, P&G implemented a US\$ 10B productivity and cost savings restructuring program which focused on transforming the Company's logistics, research and development and marketing activities. Management implied the restructuring could deliver ~9.5% of operating margin flexibility over five years.

SHAREHOLDER ACTIVISM

Even with the announced restructure, shareholders continued to push for change. In 2012, investment firm Pershing Square Capital Management established a ~US\$ 1.8B activist position in P&G (approximately ~1% of shares outstanding) with Bill Ackman agitating for new management and further cost cutting measures. In May 2013, acting CEO Bob McDonald "retired", and Chairman A.G. Lafley returned as President/CEO.

NEW GROWTH STRATEGIES

In October 2014, P&G announced a bold "Shrink-To-Grow" plan which saw the Company divest up to 100 brands, instead deciding to focus on 65 core brands across its ten key categories. This will allow P&G to increase operation flexibility and improve its responsiveness within the marketplace. We further believe these strategic asset sales will enable P&G to refocus on its key strengths and brands – assigning capital to brands exhibiting growth potential, and those contributing to bottom line earnings. In addition to sales growth, we expect P&G will use some of the proceeds of its asset sales to return capital to shareholders.

In July 2015, P&G announced a US\$ 12.5B deal with North American beauty products manufacturer, Coty Inc (COTY), resulting in the divestment of 43 of its beauty brands. The Company has previously divested its batteries business to Warren Buffet's famous holding company, Berkshire Hathaway Inc (BRK.A), in a deal worth approximately US\$ 2.9B in November 2014. Further divestment of

slow growth/low margin non-core assets provides an apparent source of future value creation. P&G management could divest other assets across categories, both on a brand and/or business segment level. This could be achieved via trade sales, private equity sales or through a spin-off to shareholders. In addition to divestments, we also suggest a possible breakup such as the recent Kraft Foods Inc. split into Mondelez International and Kraft Foods Group in 2012 and the split of Sara Lee, and the separation of Energizer Holdings and Edgewell Personal Care.

STRONG TRACK RECORD OF RETURNING CAPITAL TO SHAREHOLDERS

P&G remains a premier dividend growth stock. P&G has paid an uninterrupted dividend for the past 125 years since its incorporation in 1890 while for the past 59 years, the Company has increased its dividend payments on an annual basis. The Company's Gross Dividend Yield currently stands at 3.19% with a forecast FY16 Yield of 3.24%. P&G's ability to distribute profits to shareholders is the product of its high operating cash flows - between 2009 and 2015, the Company returned US\$ 82B of capital to shareholders via dividends and share buybacks. Management intends to return a further US\$ 70B to shareholders between 2016 and 2019.

ECONOMIC MOAT

As one of the world's largest consumer packaged goods companies, P&G has the advantage of scale across brands, businesses and operations. The Company owns over 20 'billion-dollar' brands which generate sales between US\$1B to US\$10B. A further 11 brands generate sales between US\$500M to US\$1B. Almost all of P&G's leading brands hold market-leading positions within in their respective categories/segments. It is this scale which enables P&G to realise a lower unit cost compared to smaller peers (giving the Company a significant cost advantage) and direct increased investment toward product innovation. Despite P&G's intention to down-size its brand portfolio, we remain confident the Company's economies of scale remains unthreatened - we note that the 65 brands P&G intends to retain currently represent 90% of revenues and 95% of profits.

P&G's brands pose a strength for both itself and its customers - P&G is a trusted manufacturer and has a valuable product set which continues to drive traffic for retailers. This increases retailer stickiness as there is high risk for retailers when switching to unproven suppliers. P&G is consistently ranked by leading retailers in industry surveys as a preferred supplier and frequently ranked as the industry leader in a wide range of capabilities, including clearest company strategy, brands most important to retailers, strong business fundamentals and innovative marketing programs.

SUPPLY CHAIN OPTIMISATION

P&G has over 130 manufacturing sites and 200 distribution centres globally, with 7,000+ suppliers. The Company is currently implementing the largest supply chain redesign in its history, starting

with a major redesign of flagship supply networks in North America and Europe. As part of the restructure, P&G is moving away from a dispersed supply network that is forecast-driven, to a responsive supply network structure. The Company is also building six mega-distribution centres in strategic locations across the US, with a distribution goal of being within one day's transit to 80% of retailers. 'Supplier villages' are being established next to P&G's plants decreasing response times. This is particularly relevant given P&G's move toward adopting a demand-driven replenishment model based on point-of-sale (POS) information gathered from retail customers. We believe this supply chain redesign will transform P&G into a leaner, more efficient company, bringing it closer to its customers.

STOCK PRICE WEAKNESS PRESENTS A LONG-TERM OPPORTUNITY

The weakening of developing market economies and the strengthening of USD saw investors exit US domiciled multinationals in 2015, including P&G. P&G's failure to execute on its latest turnaround efforts exacerbated this retreat. Between December 2014 and August 2015, P&G's share price declined some 31%.

The Elevation Capital Value Fund began to establish a position in P&G in June 2015, at an average cost of US\$ 74.64 per share (as at March 2016).

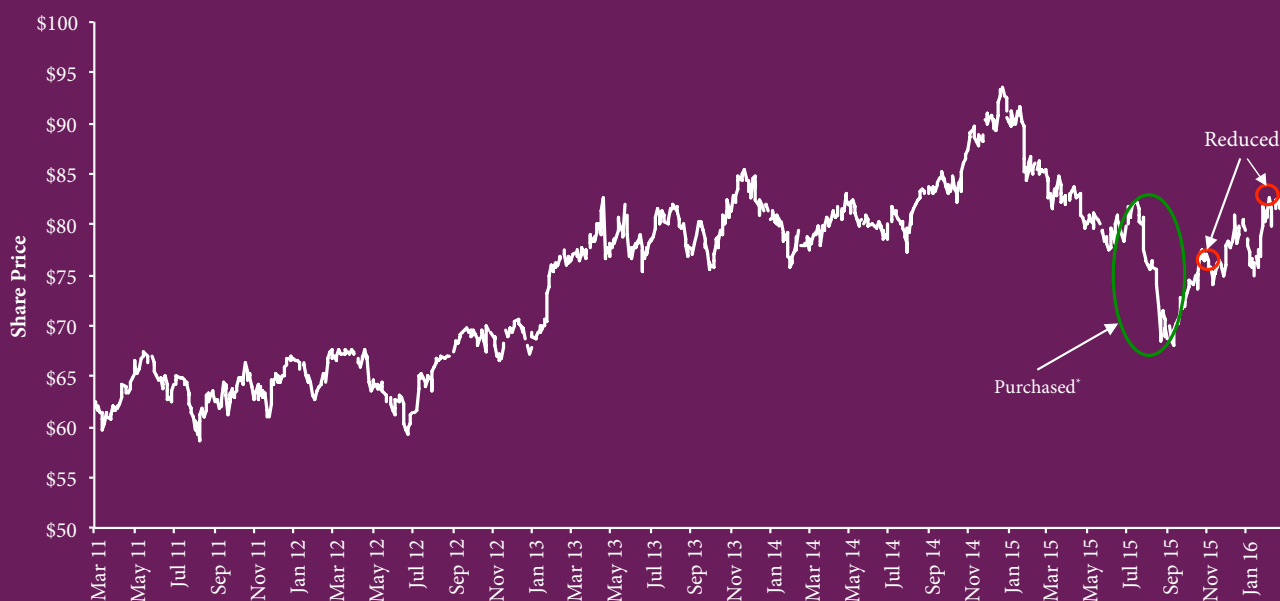
INVESTMENT THESIS - SUMMARY

P&G is an industry leader and offers an attractive asymmetric risk/reward profile. P&G has the advantage of economies of scale and brand power, but it is not reflected in current financial results primarily due to a weak consumer environment globally for premium brands, an inefficient supply chain, and a strengthening US Dollar. P&G has the chance to divest assets which will allow it to focus on the segments in which it performs best while renewed focus on innovation presents an opportunity to the Company to reassert its global dominance. We expect these strategies to deliver improved returns for shareholders allowing the Company to return significant sums of cash in the form of dividends or buybacks – up to US\$70B by 2019 (31% of current market capitalisation).

P&G currently trades at US\$ 82.55 per share (as at 2 March 2016), with an EV/EBITDA multiple of 14.6x. We currently value P&G on a Sum-of-the-Parts basis with an Intrinsic Value Estimate range between US\$ 89.63 - US\$ 107.13. From the Elevation Capital Value Fund's cost basis of US\$ 74.64 per share, our valuation/s represent upside potential of between +20.0% to +43.5%.

P&G: WEAK FY2015 RESULTS PROVIDED INVESTMENT OPPORTUNITY

- The weakening of developing market economies and the depreciation of currencies around the world versus the US Dollar saw investors exit US domiciled multinationals in 2015, including P&G.
- Investors also became impatient with the latest turnaround efforts by the Company. The share price declined ~31% between December 2014 and August 2015.
- We established our position in Q3 2015, with an average cost of US\$ 74.34*. P&G is currently our third largest position in the Elevation Capital Value Fund (and typically a top 10 position in a large number of our Separate Account portfolios)**.
- Current share price*** = US\$ 82.55 (Market Capitalisation = US\$ 223.26B)



* Elevation Capital Value Fund Historical Trades

** As at 31 January 2016

*** As at 2 March 2016

P&G: SECOND LARGEST CONSUMER PRODUCTS COMPANY IN THE WORLD

2ND

Largest consumer products company in the world

\$76.3B

FY2015 Net Sales

21

Brands with sales of US\$1B to US\$10B

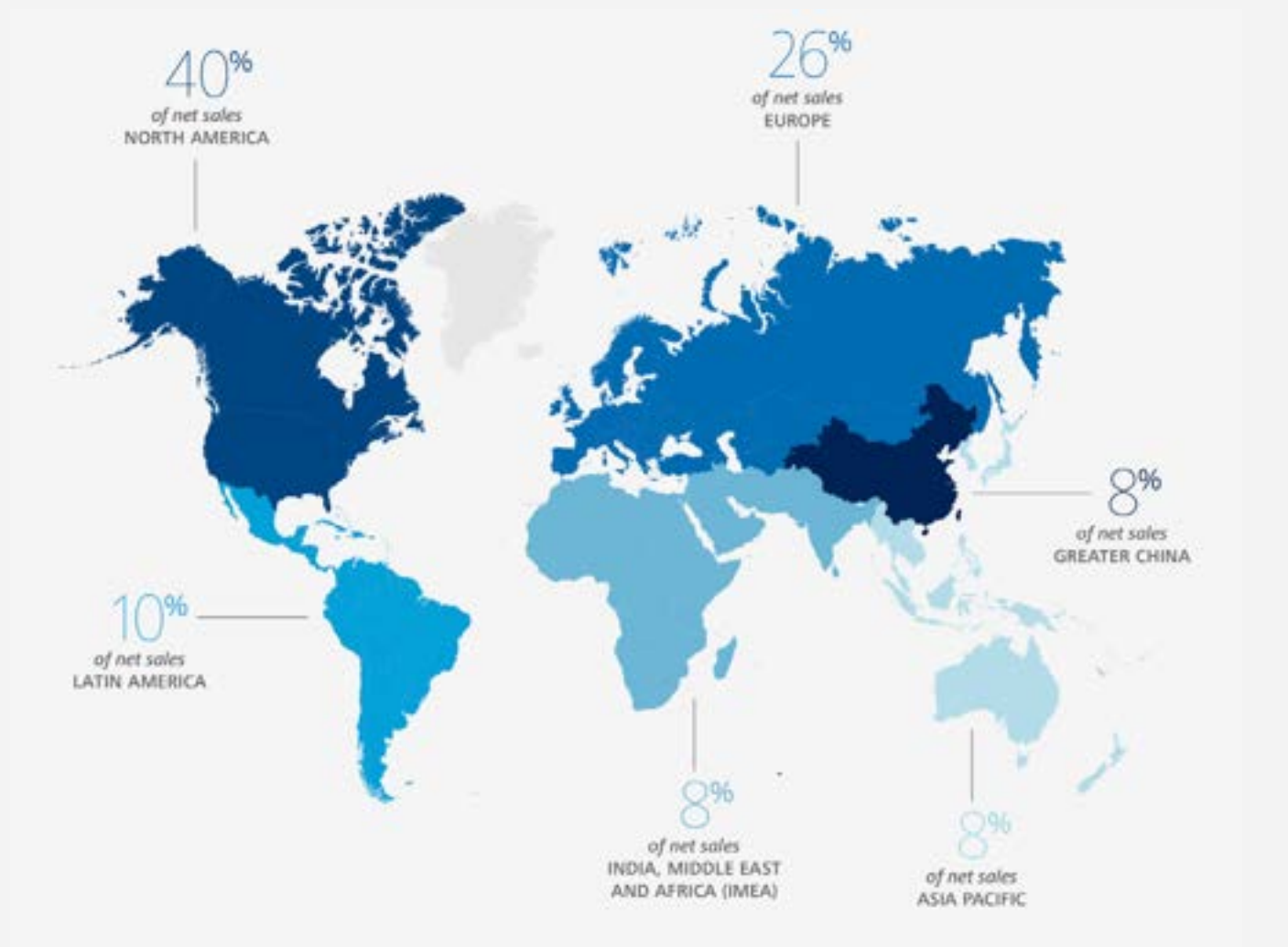
11

Brands with sales of US\$500M to US\$1B



P&G: A COMPANY WITH TRULY GLOBAL REACH

P&G's products are sold in more than 180 countries and territories around the world primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, salons, e-commerce, high-frequency stores and pharmacies.



180
Countries
& Territories

60%
Net Sales outside
North America

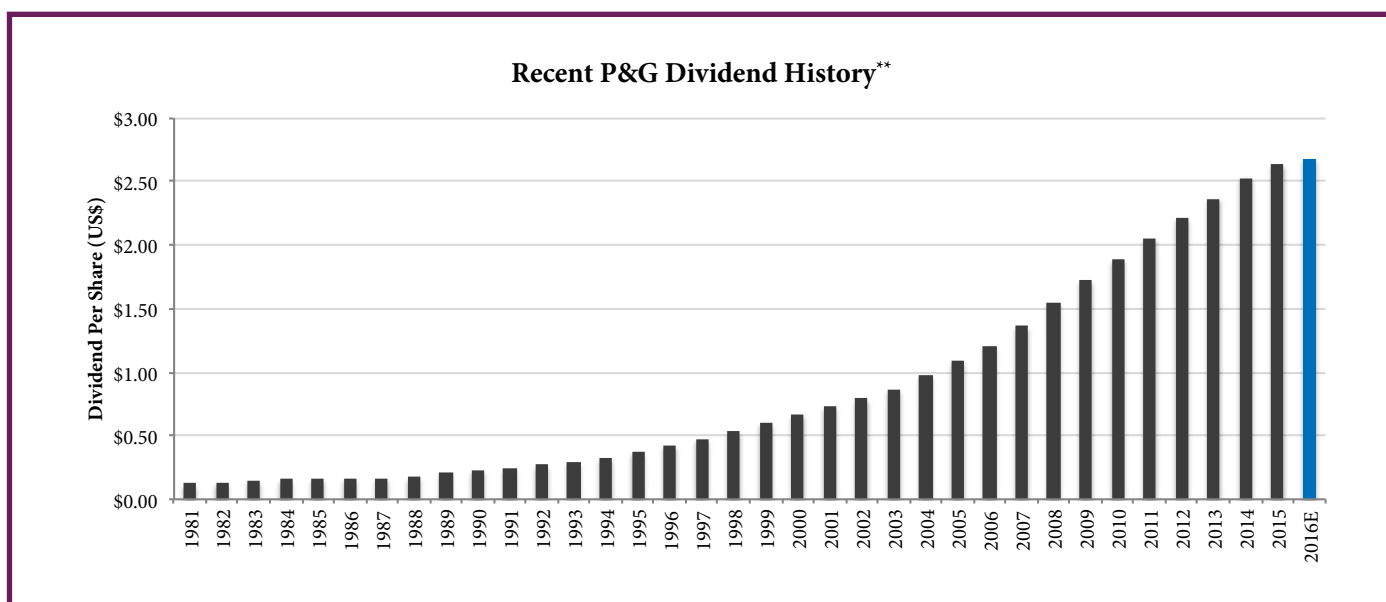
P&G: ONE OF THE MOST CONSISTENT DIVIDEND PAYERS (1)

DIVIDENDS

- Current Gross Dividend Yield = 3.19% (Forecast FY16 Yield = 3.24%)*
- Since 1981, the Compound Annual Growth Rate of P&G's Dividend Per Share = 9.2%

“P&G has been paying a dividend for 125 consecutive years since its incorporation in 1890 and has increased its dividend for 59 consecutive years.”

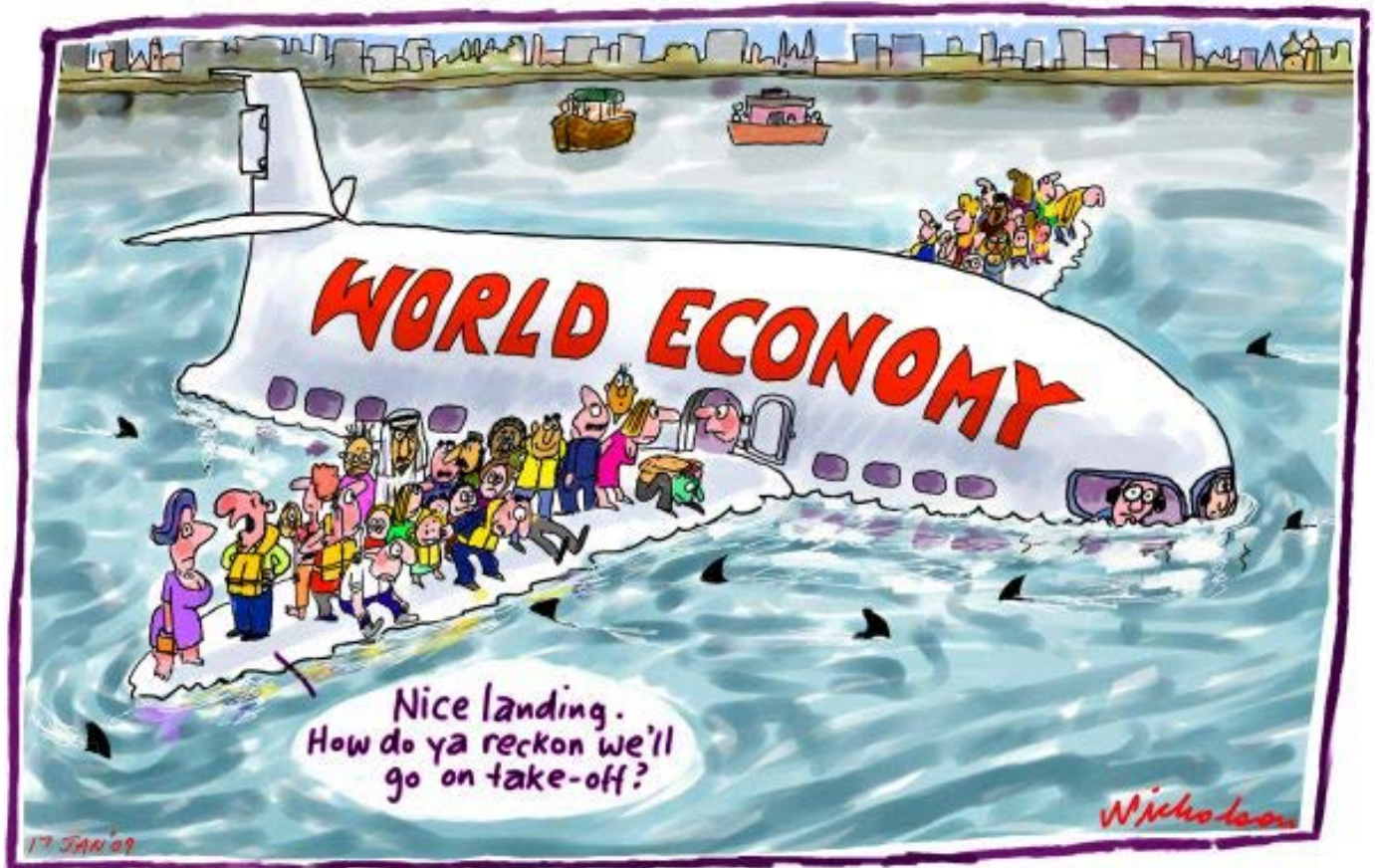
P&G Quarterly Dividend Declaration
- 12 January 2016



* Based on a share price of US\$ 82.55 as at 2 March 2016

** Data Source: Thomson Reuters Worldscope as at 2 March 2016

P&G: ONE OF THE MOST CONSISTENT PAYERS (2)



“Big, stable, dividend-paying, adaptive corporations can survive in most monetary and fiscal settings...”

- Jim Grant
(Grant's Interest Rate Observer)

P&G: 178 YEARS OF HISTORY

- 1837 William Procter and James Gamble settle in the Queen City of the West, Cincinnati, and establish themselves in business — William as a candle maker and James as a soap maker. The two might never have met had they not married sisters, whose father convinced his new sons-in-law to become business partners. As a result, in 1837, a new company was born: Procter & Gamble.
- 1879 P&G launches its first branded product, Ivory Soap.
- 1886 Production starts at Ivorydale. The factory incorporates the latest technological advances with a pleasant work environment for employees — a progressive approach at that time.
- 1901 King C. Gillette creates the KC Gillette Razor
- 1923 P&G becomes one of the first companies to advertise on commercial radio.
- 1946 Tide, the “washday miracle,” is introduced to the US market.
- 1955 Crest is introduced, dramatically changing the way people think about oral care.
- 1961 P&G introduces Pampers, the first affordable, successful, disposable diaper.
- 1981 Researchers isolate the naturally occurring yeast that produced nutrient-rich ferment. This led to the development of SK-II.
- 1991 Pantene Pro-V is introduced and becomes the fastest growing shampoo in the world.
- 2004 P&G creates the Children’s Safe Drinking Water program by using revolutionary water purification sachets.
- 2005 P&G finalises its merger with the Gillette Company.
- 2012 P&G celebrates its 175th Anniversary and looks towards the future to continue building brands that will touch and improve the lives of billions of people around the world.
P&G sells Pringles to Kellogg for US\$ 2.7 Billion in cash.
- 2013 After a period of growth P&G made significant cuts to its workforce in key emerging markets, particularly India.
- 2014 P&G sells Duracell to Berkshire Hathaway for US\$ 4.7 Billion of P&G shares.
P&G sells ~80% of its Pet-Food Business to Mars for US\$ 2.9 Billion, and the European Pet Care Business to Spectrum Brands.
P&G announces it is to drop around 100 brands and concentrate on the remaining 80 brands that produces 95% of the Company’s profits.
- 2015 P&G sells its hair care, cosmetics and fragrance businesses to Coty for US\$ 12.5 Billion.
P&G revises strategy to further concentrate on its 65 key brands in ten categories.

P & G: WIDE ECONOMIC MOAT - DIVERSE RANGE OF PRODUCTS WITH STRONG MARKET POSITIONS

BABY, FEMININE AND FAMILY CARE

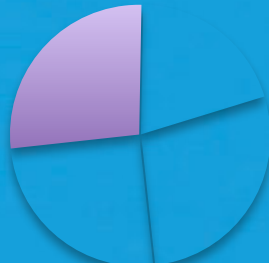
\$20.2 billion

NET SALES*



29%
of net sales

BABY CARE
Subcategories: Baby Wipes,
Diapers and pants



27%
of net profits

FAMILY CARE
Subcategories: Paper Towels,
Tissues, Toilet Paper

FEMININE CARE
Subcategories: Adult
incontinence, Feminine Care



BEAUTY

\$18.1 billion

NET SALES*



18%
of net sales

HEALTH CARE
Subcategories: Hair Care

SKIN AND PERSONAL CARE
Subcategories:
Antiperspirant and

Deodorant, Personal
Cleaning, Skin Care



20%
of net profits

FABRIC AND HOME CARE

\$22.3 billion
NET SALES*

FABRIC CARE
Subcategories: Fabric Enhancers, Laundry Additives, Laundry Detergents

HOME CARE
Subcategories: Air Care, Dish Care, P&G Professional, Surface Care



32%
of net sales



25%
of net profits



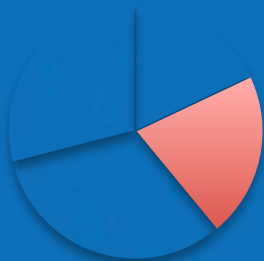
HEALTH AND GROOMING

\$15.2 billion
NET SALES*

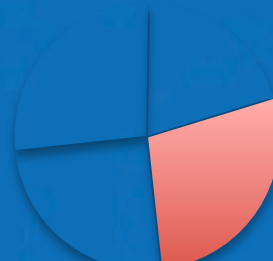
ORAL CARE
Subcategories: Toothbrush, Toothpaste, Other Oral Care

PERSONAL HEALTH CARE
Subcategories: Gastrointestinal Rapid Diagnosis, Respirators, Vitamins/Minerals/Supplements, Other Personal Care

SHAVE CARE
Subcategories: Electronic Hair Removal, Female Blades & Razors, Male Blade & Razors, Pre-and-post Shave Products, Other Shave Care



21%
of net sales



28%
of net profits



P&G: 21 BILLION DOLLAR BRANDS (1)



HEAD & SHOULDERS

Launched in 1961, Head & Shoulders is the world's #1 shampoo. Clinically tested over 200 times, it is one of the most tested and most trusted dandruff shampoos.



OLAY

Olay is a world leader in skin care products. Olay was first introduced in South Africa in 1952. Today, Olay brings "healthy, beautiful skin" to more than 80 million women on five continents.



PANTENE

Pantene got its name from "panthenol" (pro-vitamin B-5), which was developed in 1940 in Switzerland and used to treat burns in WWII. It was soon found to improve the health, elasticity and moisturisation of hair. Pantene shampoo launched in Europe in 1947.



GILLETTE

Gillette is the world's leading male grooming brand, including razors, hair care, bodywash. Gillette was started in 1901 as a razor company by King C. Gillette. P&G acquired the company in 2005. It continues to be a leader in innovation and skin care.



MACH3

Mach3 is the first three-blade razor that was introduced in 1998, which Gillette claims reduces irritation and requires fewer strokes.

The Mach3 featured five improved microfins and spring blades, a pivoting head with greater flexibility and a blue lubrication strip that faded with usage to encourage users to change their blades more frequently.



FUSION

Fusion is the fastest brand to achieve Billion Dollar status. It was the first razor with 6 blades (5 for shaving, 1 for trimming).

Fusion is sold in about 80 countries.

Its marketing campaign was fronted by the sports stars Roger Federer, Thierry Henry and Tiger Woods.



PRESTOBARBA

Gillette Prestobarba is a line of disposable razors that are marketed for the Latin American market.

P&G: 21 BILLION DOLLAR BRANDS (2)



ALWAYS

A world leader in feminine protection products. Launched in 1984 with four products. Today, Always is the leader in feminine protection, sold around the world with a full line of products.



BOUNTY

Paper towels and napkins sold across North America. Bounty was introduced in 1965 and was known for years as “the quicker picker-upper.” After more than 40 years as America’s top-selling paper towel, Bounty today combines strength and absorbency to help parents tackle the toughest messes around the home.



CHARMIN

Leading line of bath tissue sold in North America. Charmin was established in 1928, and was acquired by P&G in 1957. Charmin has been America’s most popular bath tissue for more than 25 years.



CREST

Global line of dental hygiene products, including toothpaste, rinses, floss and whitening strips. Crest was introduced in 1955, and in 1960 was recognized as effective against cavities by the American Dental Association. It was the first toothpaste to secure the American Dental Association Seal of Acceptance.



ORAL-B

World leader in the tooth brushing market; includes manual and power toothbrushes, toothpaste and floss. Oral-B was created by Dr. Robert Hutson, a California periodontist, in 1949, looking for a brush to better meet patients’ needs. Today, Oral-B manual toothbrushes are used by more dentists than any other brand in the U.S. and worldwide.



VICKS

Vicks manufactures NyQuil and its morning sister medication, DayQuil. The Vicks brand also produces Formula 44 cough medicines, cough drops, Vicks VapoRub, and a number of inhaled breathing treatments.

For much of its history, Vicks products were manufactured by the family-owned company Richardson-Vicks, Inc., which was eventually sold to Procter & Gamble in 1985.

P&G: 21 BILLION DOLLAR BRANDS (3)



ARIEL

Globally distributed laundry cleaning products. Ariel was first introduced in Germany in 1967. Today, Ariel is sold in more than 135 markets around the world.



DAWN

Dish detergent products sold in North America. Dawn was introduced in 1972 and quickly recognized for its superior grease-cutting ability. For more than 20 years, Dawn has worked with wildlife rescue and rehabilitation organizations to help animals harmed in oil spills.



DOWNY

Global line of fabric enhancing products. Downy was introduced in 1960 in the United States and now is sold globally.



PAMPERS

Global line of baby care products, including diapers and wipes. Pampers got its start in 1956 when a P&G grandfather decided people needed an alternative to messy cloth diapers. In 1961, Pampers was launched. Today, it is P&G's number one selling brand in the world.



FEBREZE

In 1998, Procter & Gamble created a new product category in the laundry aisle by launching Febreze Fabric Refresher, the first product of its kind to eliminate unwanted household odours from soft surfaces.



GAIN

Line of fresh-cleaning laundry products sold in North America. Gain was introduced in 1966 and became a Billion Dollar Brand in 2007.



TIDE

Leading fabric cleaning and care products sold in North America. Tide was introduced in 1946 and within three years captured US market leadership in the laundry category.



SK-II

SK-II is a prestige beauty brand launched in 1980 in Japan. It contains Pitera that allows the skin's natural surface rejuvenation process to function at its best. It is sold in Asia, Australia, Europe, North America, and South America.

P&G: RECENT MANAGEMENT HISTORY

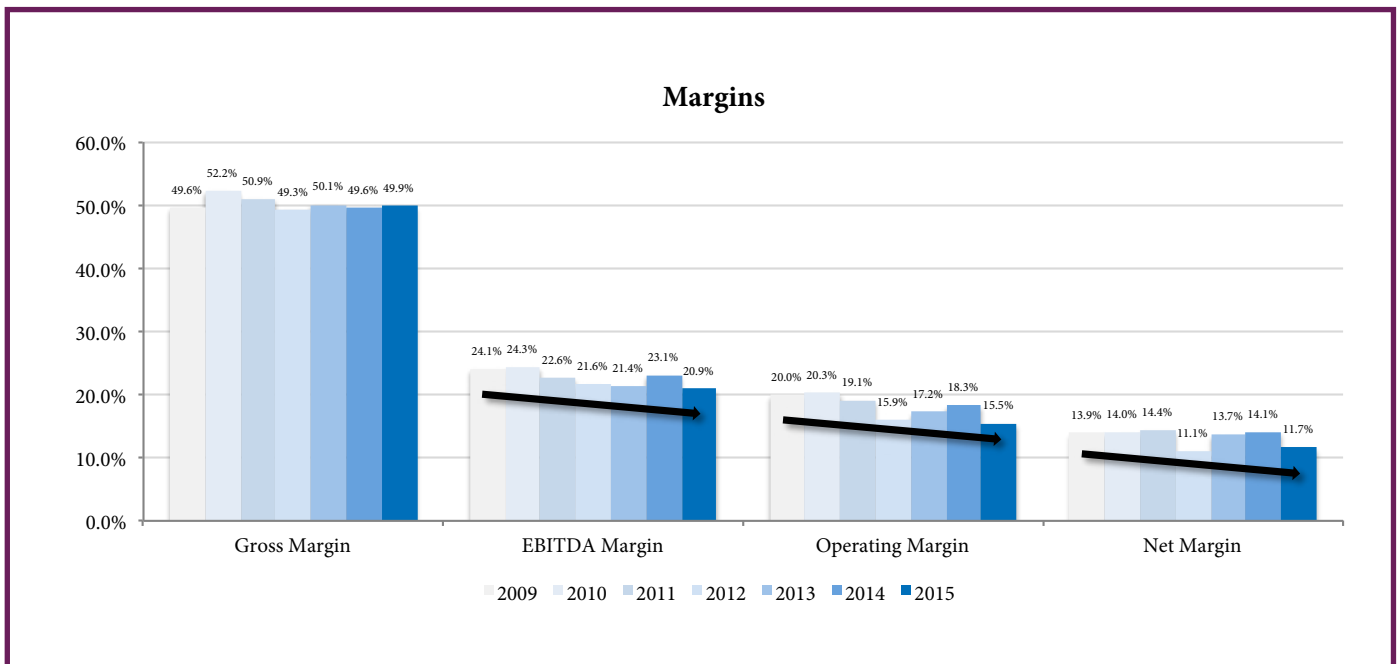
- 2000 A.G. Lafley becomes P&G's President & CEO.
- 2002 A.G. Lafley assumes the additional role of Chairman.
- 2009 Bob McDonald becomes P&G's President and CEO.
- 2010 Marks the beginning of several years of declining profits and stagnant share prices.
- 2012 In February, P&G announced a US\$ 10B restructuring program.
In July, Pershing Square Capital confirmed it has taken a US\$ 1.8B stake in P&G and it would take an activist role.
- 2013 In May, P&G announced the departure of CEO Bob McDonald, and A.G. Lafley returning as President and CEO.
- 2014 P&G announces it is to drop around 100 brands and concentrate on the remaining 80 brands that produces 95% of the Company's profits.

Pershing Square Capital sold its remaining P&G stake by March.
- 2015 In November, David Taylor becomes P&G's President and CEO.
P&G announced that it will concentrate on 65 brands from its top ten product categories.



P&G: MARGIN DETERIORATION IN RECENT YEARS

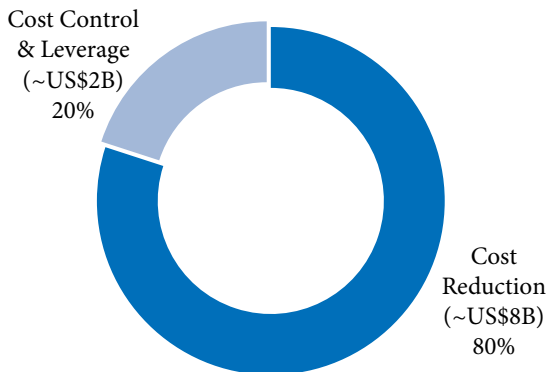
- Since 2009, P&G suffered several years of declining margins and profits. In 2015, this was exacerbated when P&G was hit by a combination of weakening developing market economies and a strengthening US dollar.
- We also believe these factors were compounded by poor management during Bob McDonald's tenure as CEO (2009-2013). The Company during this period was slow in reacting to changing consumer behaviours which led to poor market positioning and declining revenue while maintaining a high overhead cost structure. These factors can be pinpointed as the major contributor to declining margins in recent years and are now the focus of new management who are executing on a portfolio rationalisation and supply chain optimisation program.



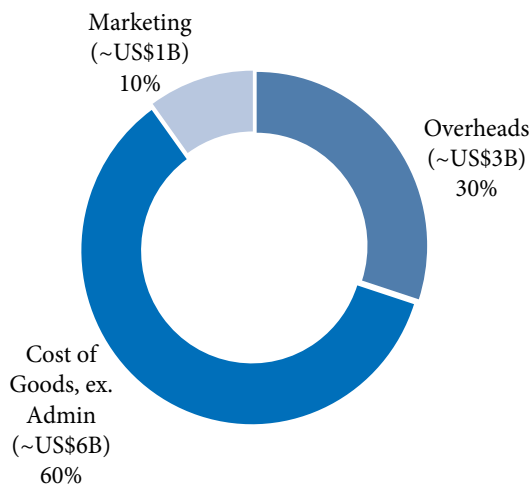
P&G: THE 2012 US\$ 10B FIVE-YEAR RESTRUCTURING PROGRAM

- P&G's inability to navigate changing market conditions and high overhead cost structure led to investor frustration. This resulted in a period of share price stagnation lasting from 2010 to 2012.
- In February 2012, the Company announced a US\$ 10B restructuring program over the ensuing five years, with a forecast reduction of more than 5,700 jobs in non-manufacturing areas including marketing*.
- Management implied the restructuring could deliver ~9.5% of operating margin flexibility over five years.
- We note an improvement in operating margins in FY2013 (+1.30%) and FY2014 (+1.10%). However, operating margins declined again FY2015 (-2.80%) principally due to the weakening of developing market economies and a strengthening US dollar.

How to Cut Cost?



Where to Cut Cost?



Gillette®



* Source: P&G CAGNY Presentation – 23 February 2012

P&G: SHAREHOLDER ACTIVISM HAS LED TO MANAGEMENT CHANGES

- Even with the announced US\$ 10B restructuring program in 2012, one of the largest activist investors – Bill Ackman’s Pershing Square Capital decided to set its sights on P&G.
- Pershing Square established a ~US\$ 1.8B activist position in P&G in 2012, which amounted to ~1% of shares outstanding. Bill Ackman began agitating for new management and further cost cutting measures.
- In May 2013, Bob McDonald “retired”, and Chairman A.G. Lafley returned as President/CEO.
- In October 2014, P&G announced a bold “Shrink-To-Grow” plan to exit up to 100 brands and focus on ten key categories and a select number of brands within each of these categories (refer page 18).
- David Taylor became P&G President & CEO on 1 November 2015, in charge of reinvigorating P&G’s core businesses and reigniting growth.



P&G Ex-CEO Bob McDonald was under pressure from Bill Ackman of Pershing Square Capital

P&G: THE 2014 'SHRINK-TO-GROW' STRATEGY

- P&G announced in 2014 that it would focus on ten product categories with about 80 brands (subsequently revised to 65 brands in 2015).
- P&G is the global leader in seven of these ten categories and is #2 in the remaining three, with significant long-term growth potential in all categories.

#1 globally

BABY



#1 globally

FEMININE



#1 globally

FAMILY



#1 globally

FABRIC



#1 globally

HOME



#1 globally

HAIR



#2 globally

SKIN & PERSONAL



#1 globally

GROOMING



#2 globally

ORAL



#2 globally

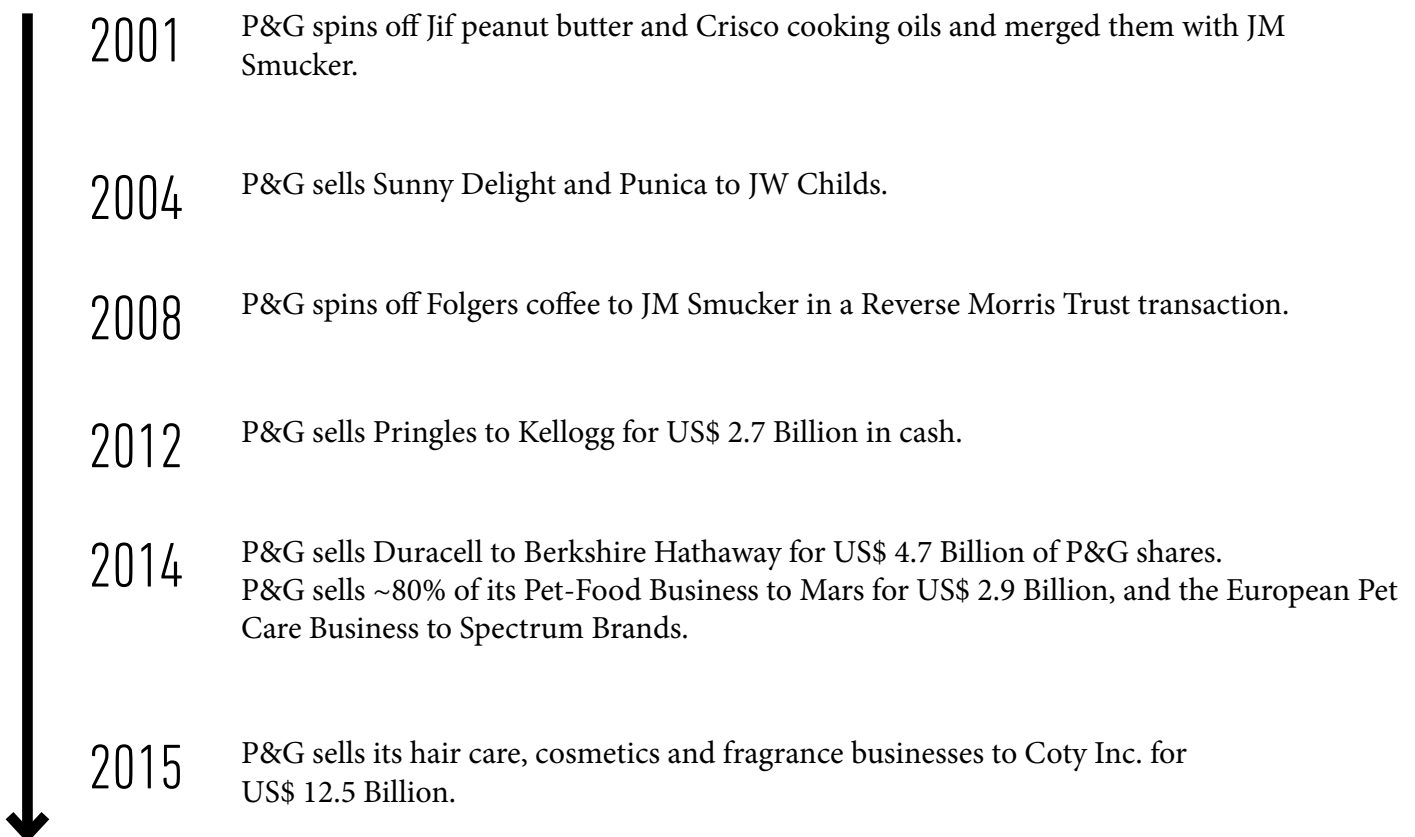
PERSONAL HEALTH CARE



P&G: RECENT DIVESTMENT HISTORY SHOWS WILLINGNESS TO ADAPT

- P&G management have demonstrated a willingness in recent years to undertake divestments of non-core brands or segments. Specifically, the Company announced in 2014 that it would dispose of around 100 brands and concentrate on the remaining 80 brands that produce 95% of the Company's profits.
- An example of a recent divestment is the Reverse Morris Trust* transaction, in which P&G merged 43 of its brands with Coty Inc**. The US\$ 12.5B transaction included P&G's hair care and colour brands, cosmetics and fine fragrances business. The deal is expected to close in the second half of 2016.
- Similarly, the November 2014 tax efficient divestment of the Duracell battery brand to Berkshire Hathaway was another example of a disposal which allowed the Company to focus on its core business by selling a brand with limited synergies to the rest of P&G. The transaction allowed P&G to continue streamlining and netted US\$ 4.7B of its own shares owned by Berkshire Hathaway.
- We see a continuation of this divestment program of non-core brands. P&G updated its "Shrink-To-Grow" strategic plan recently and stated that it will focus on only 65 brands instead of 80 which it first tabled in 2014.

TO FOCUS ON TEN PRODUCT CATEGORIES, ABOUT 65 BRANDS.

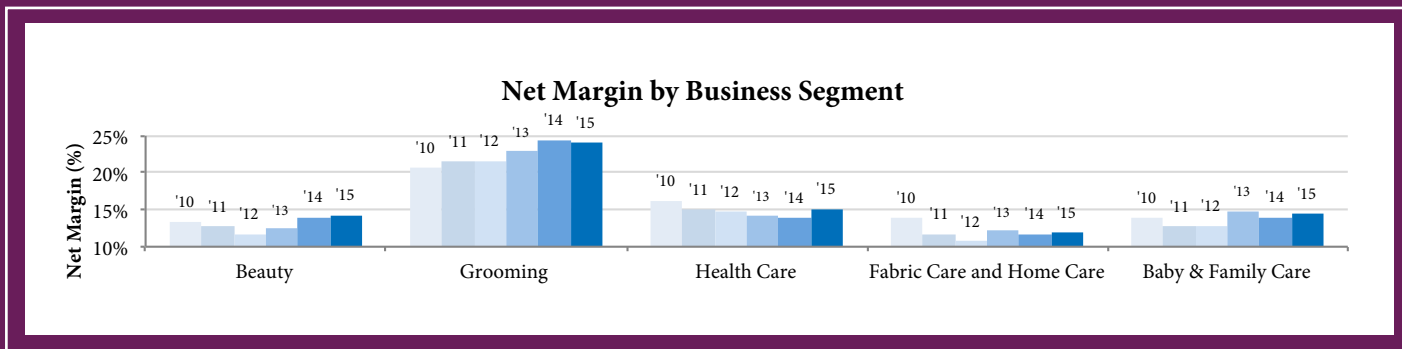
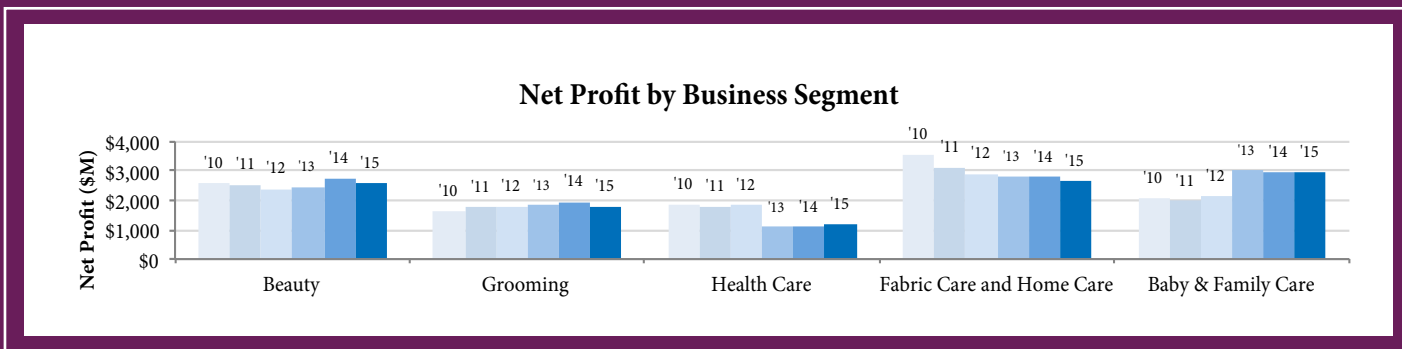
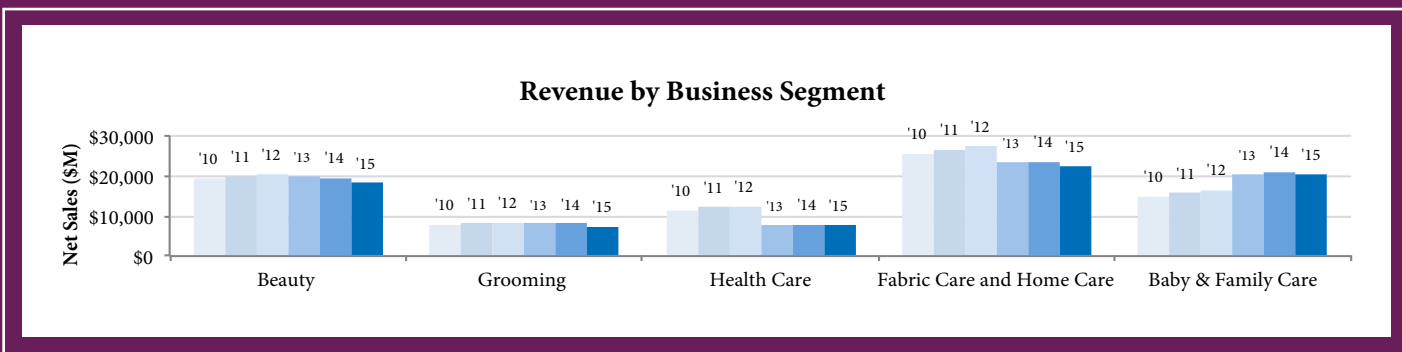


* A Reverse Morris Trust transaction is a complex transaction to exit assets out of the parent company tax efficiently and the shareholders receive all the benefits and potential upside of a pre-arranged M&A transaction.

** Coty Inc. is one of the top global players in fragrance, cosmetics and skin & body care.

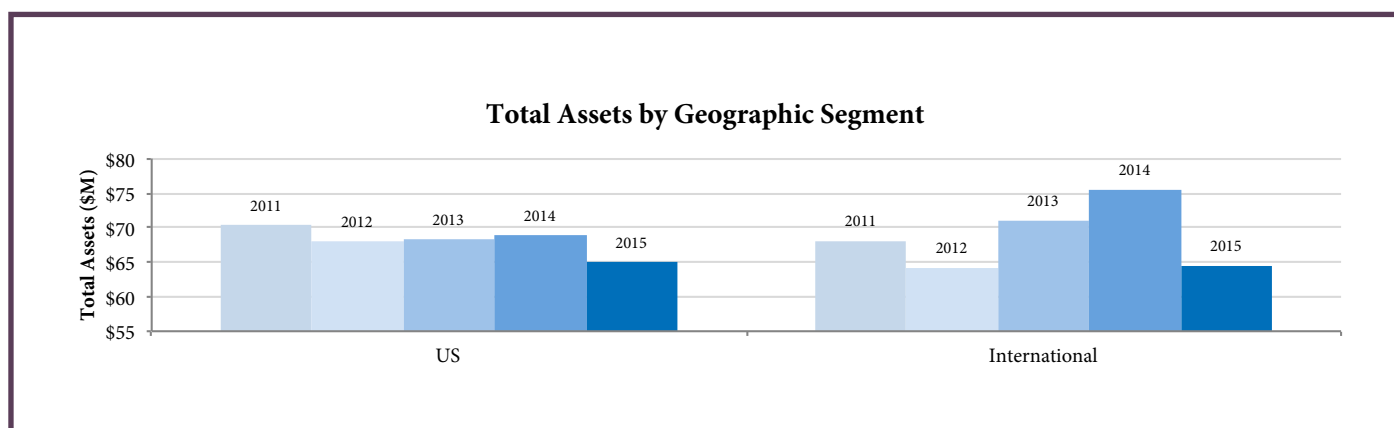
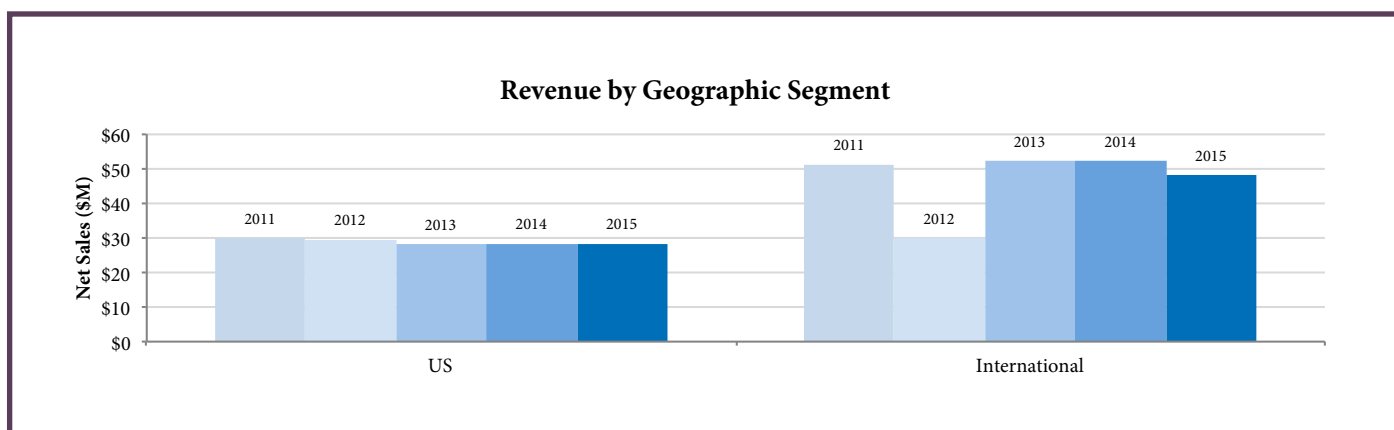
P&G: BUSINESS SEGMENT REVENUES, NET PROFIT & MARGINS

- The current five reporting business segments show different revenue and margin characteristics.
- The Grooming business has the highest margins. However, this division's revenue is in slow decline due to intense competition. The second highest margins are delivered by the Health Care business which produced a 15.1% net margin in 2015.
- The other three business segments (Beauty, Fabric Care and Home Care, Baby & Family Care) all have significantly larger revenues but much lower margins.



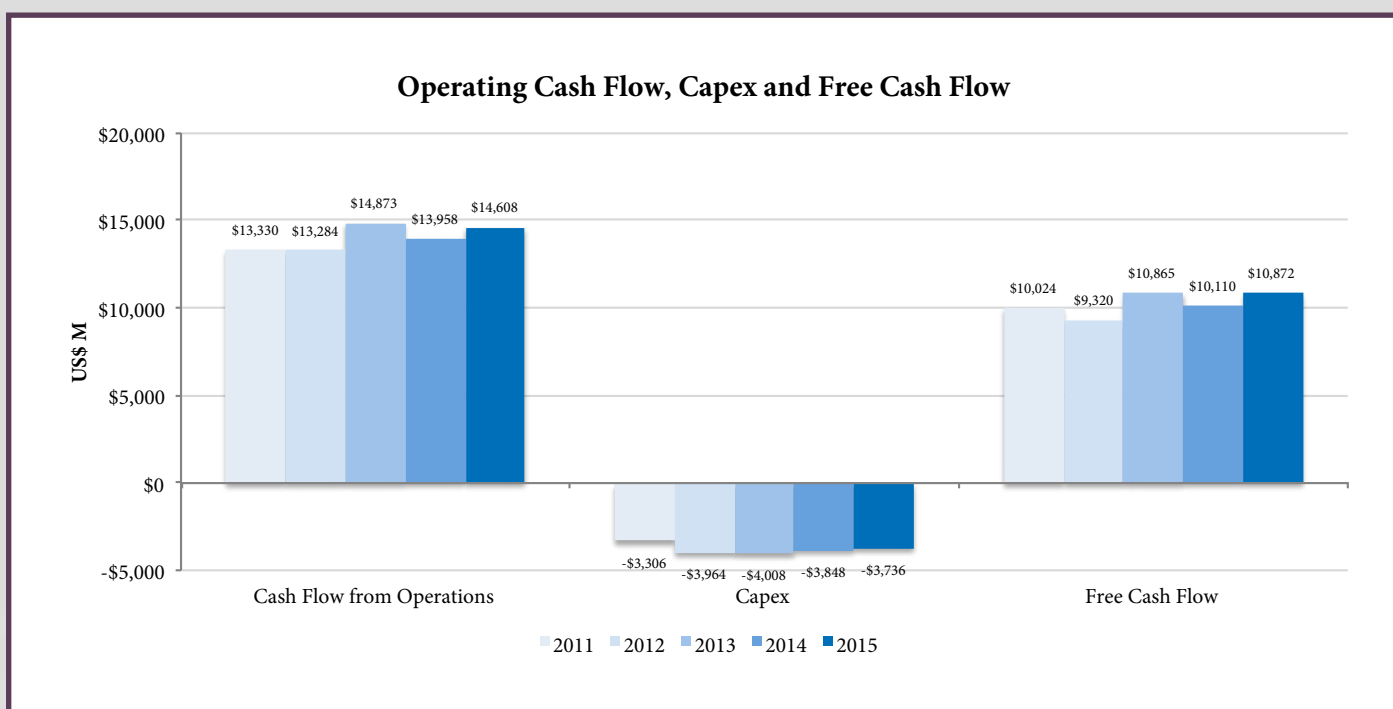
P&G: GEOGRAPHIC SEGMENT REVENUES & ASSETS

- P&G derives 60% of its revenue from its international business.
- The international business is currently a major headwind for the Company due to the strengthening US Dollar.
- However, we believe it is the international markets that will provide a significant future growth opportunity for the Company in the long run, especially those emerging and frontier markets that have sizeable population growth and GDP expansion potential.
- The core US market will continue to provide P&G the cash flows required to fund expanding investments in its international businesses.



P&G: CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- The Company has been a strong Free Cash Flow (“FCF”) generator historically.
- The Company has delivered an average US\$ 10.2B of Free Cash Flow over the past five years.
- We note the lack of FCF growth in recent years, which is a source of frustration for many investors. However, we believe this is rectifiable based on the “Shrink-To-Grow” strategy.

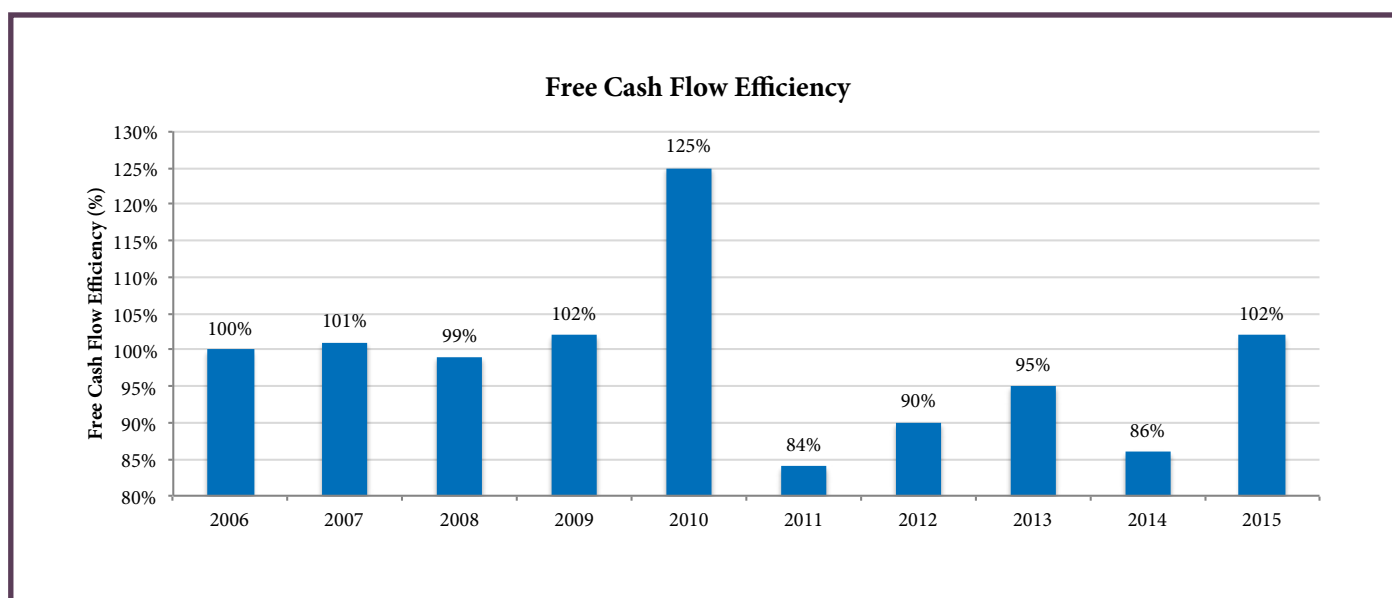


Data Source: Thomson Reuters Eikon as at 2 March 2016

* Free Cash Flow (FCF) is defined as cash from operating activities minus capital expenditures

P&G: FREE CASH FLOW EFFICIENCY

- 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 undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance.
- We note that several well run consumer goods companies, such as Edgewell Personal Care and Clorox have a 5-year average FCF Efficiency of 115%**.
- We also note an improvement in P&G's FCF Efficiency in FY2015 at 102%. However, we consider there still exists considerable room for improvement to increase its average FCF Efficiency above 110% on a more consistent basis.



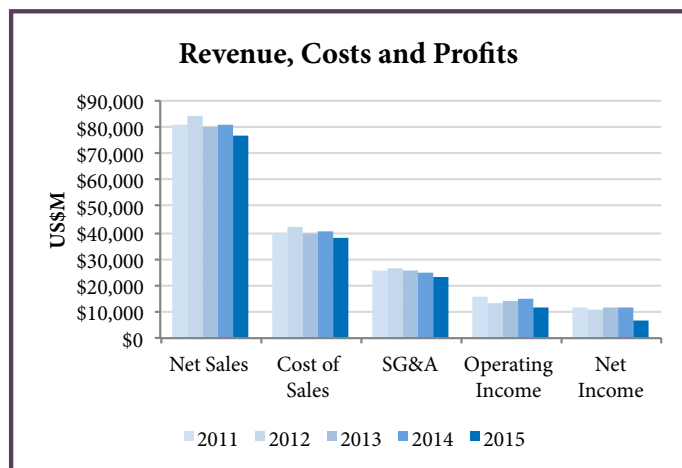
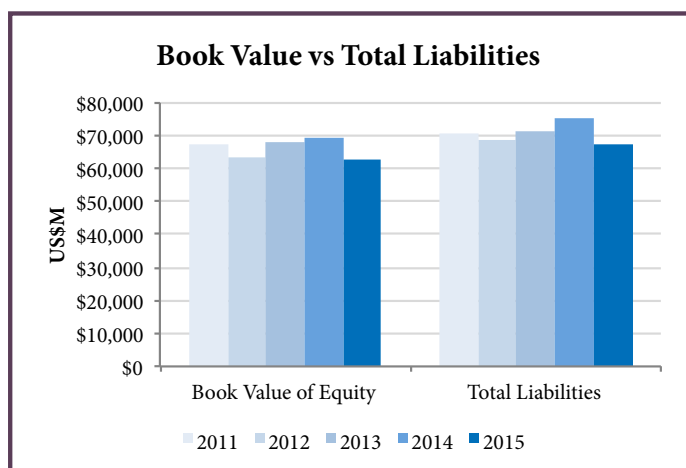
P&G: FINANCIAL POSITION

BALANCE SHEET

- Under traditional value metrics P&G may look financially leveraged - Book Value to Total Liabilities ratio = 0.93x. However, it should be noted that much of the value of its strong brands and its wide economic moat are not accounted for in this traditional accounting approach.
- The stock is currently trading at 3.6x Book Value and which again does not accurately reflect (in our opinion) underlying intrinsic value. We believe with its wide economic moat and consistent cash flows, the Company is appropriately geared to provide attractive returns for its shareholders. In fact as the portfolio is restructured further we expect increased capital returns to shareholders via buybacks (or other methods).

INCOME STATEMENT

- P&G is undertaking a “Shrink-To-Grow” process, and hence the declining revenue and profits – per the chart below. We expect this trend to reverse after it completes its brand portfolio optimisation.



* As at 26 September 2015
Data Source: Thomson Reuters Eikon as at 2 March 2016



1851



1853



1859



1875



1882



1930



1991

P&G P&G

1995

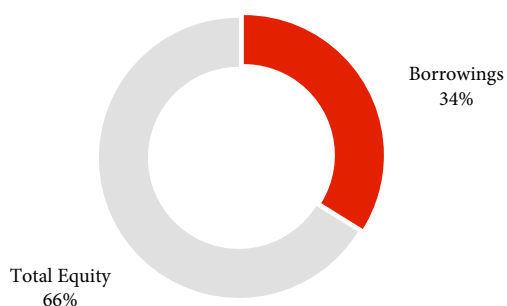
2003

P&G: DEBT & TERM STRUCTURE

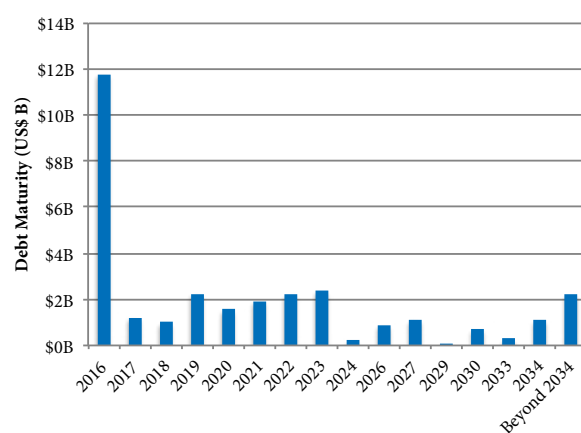
DEBT

- Debt makes up ~34% of P&G's total capital base, in line with the majority of its industry peers.
- The Company has debt totalling US\$ 31.5B*.
- P&G has a S&P Long-term Issuer Rating of AA-, and Moody's Long-term Issuer Rating of Aa3 since 2001.

Total Equity vs Borrowings



Debt Maturity Profile**



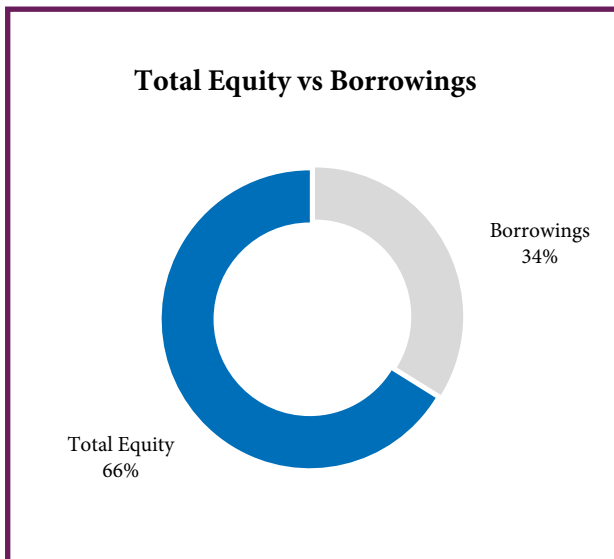
* As at 31 December 2015

** Data Source: Thomson Reuters Eikon as at 2 March 2016

P&G: EQUITY OWNERSHIP

EQUITY

- # of Shares Outstanding = 2.705B*
- Total Equity = US\$ 61.6B**
- Market Capitalisation = US\$ 223.26B*
- Large institutional investors make up the majority of the top ten holders. Of these holders, Berkshire Hathaway and Yacktman have a value driven approach and both have been long-term investors.



Top 10 Shareholders*	%*
The Vanguard Group, Inc.	6.37%
State Street Global Advisors (US)	4.27%
BlackRock Institutional Trust Company, N.A.	3.94%
Berkshire Hathaway Inc.	1.95%
Capital World Investors	1.85%
Fidelity Management & Research Company	1.70%
Bank of America Merrill Lynch (US)	0.87%
Geode Capital Management, L.L.C.	0.84%
Yacktman Asset Management LP	0.81%
Norges Bank Investment Management	0.77%
Total	23.37%



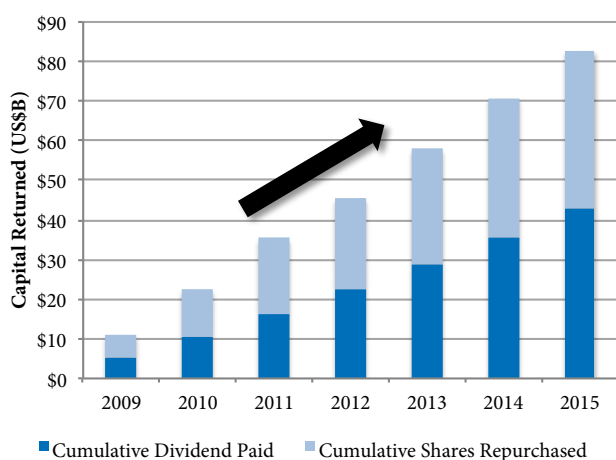
P&G: CAPITAL RETURNS VIA DIVIDENDS & SHARE BUYBACKS

US\$223B
P&G MARKET CAP**

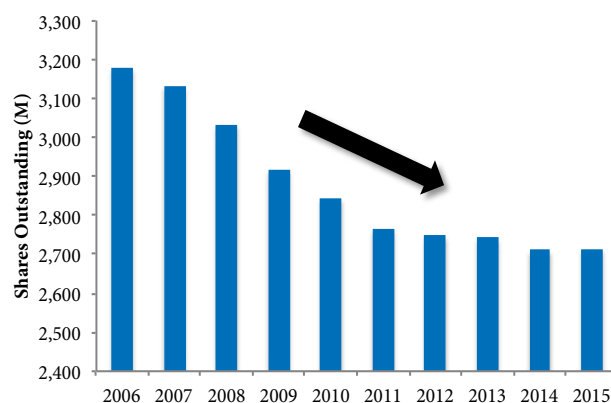
US\$82B
OF CAPITAL RETURNED TO
SHAREHOLDERS BETWEEN 2009
AND 2015*

US\$70B
OF CAPITAL INTENDED TO BE
RETURNED TO SHAREHOLDERS
BETWEEN 2016 AND 2019***

Cumulative Capital Return Since 2009



Shares Outstanding (M)



* P&G Annual Reports from 2009 to 2015

** As at 2 March 2016

*** Through a combination of dividend payments, share retirement and share repurchase

P&G: COMPANY CULTURE / WORKPLACE

- We investigated Glassdoor (www.glassdoor.com) where employees and former employees anonymously review companies and their management. Our overall impression of the reviews is that P&G has a company culture that resonates with many of its employees around the world.

Procter & Gamble

Overview | 3.4k Reviews | 4.1k Salaries | 1.5k Interviews | 734 Benefits | 3.8k Jobs | More

Procter & Gamble Overview

Website	www.pg.com	Headquarters	Cincinnati, OH
Size	10000+ Employees	Founded	1837
Type	Company - Public (PG)	Industry	Manufacturing
Revenue	\$10+ billion (USD) per year	Competitors	Unknown

Procter & Gamble Co. (P&G, NYSE: PG) is one of the largest corporations in the world by market capitalization and is a Fortune Top 10 Most Admired Company. At P&G, we produce globally recognized brands, and we grow and embrace the best ... [Read more](#)

Procter & Gamble Reviews [See All >](#)

3.9 Rating Trends

82% Recommend to a friend

97% Approve of CEO

David S. Taylor
37 ratings

www.glassdoor.com/Reviews/Procter-and-Gamble-Reviews-E544.htm

#11 EMPLOYEE CHOICE AWARDS FOR BEST PLACE TO WORK 2015 (GLASSDOOR)

#10 WORLD'S TOP EMPLOYERS FOR NEW GRADS (CNNMONEY)

TOP 10 OF BEST LINKEDIN COMPANY 2014 (LINKEDIN)

#31 WORLD'S MOST RESPECTED COMPANIES (BARRON'S)

#63 WORLD'S MOST REPUTABLE COMPANIES (FORBES)

#65 AMERICA'S MOST REPUTABLE COMPANIES (FORBES)

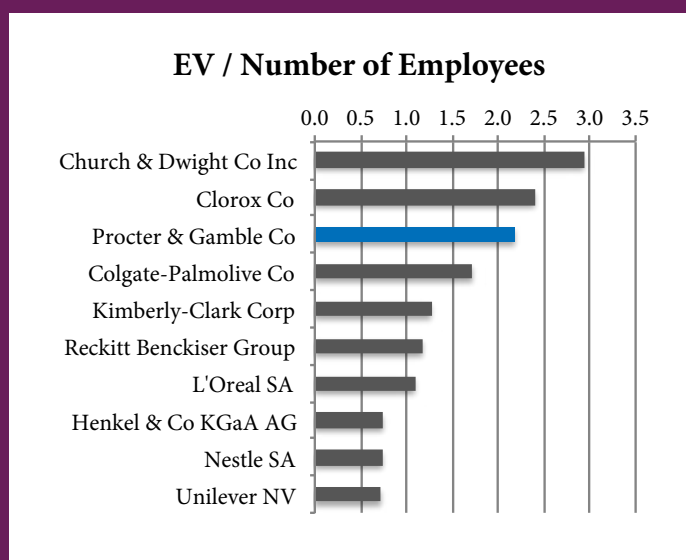
#17 WORLD'S MOST ADMIRABLE COMPANIES (FORTUNE)



P&G: EMPLOYEE EFFICIENCY

- We use the Enterprise Value to Employee Ratio to measure how worker-intensive a business or an industry is. We also use this metric to compare businesses within the same industry to rank their relative efficiency.
- P&G has an above average EV/Employee ratio. However, we remain unimpressed, as P&G ought to be benefiting from its economies of scale to produce a higher EV/Employee ratio than its smaller competitors like Church & Dwight or Clorox.
- If economies of scale brings no material benefit to P&G, there is a good case to break up the Company so the separated smaller companies can focus on improving their own productivity efficiencies and react to market conditions / changes faster.

Company Name	Current EV (USD M)	Number of Employees	EV / Number of Employees
Church & Dwight Co Inc	\$12,314	4,200	2.93
Clorox Co	\$18,463	7,700	2.40
Procter & Gamble Co	\$239,732	110,000	2.18
Colgate-Palmolive Co	\$64,882	37,700	1.72
Kimberly-Clark Corp	\$54,609	43,000	1.27
Reckitt Benckiser Group PLC	\$43,795	37,200	1.18
L'Oreal SA	\$85,913	78,611	1.09
Henkel & Co KGaA AG	\$37,453	49,950	0.75
Nestle SA	\$251,992	339,000	0.74
Unilever NV	\$125,378	172,471	0.73
Median			1.22
Mean			1.50



P&G: COMPARABLE COMPANIES – MARGINS AND RETURNS (1)

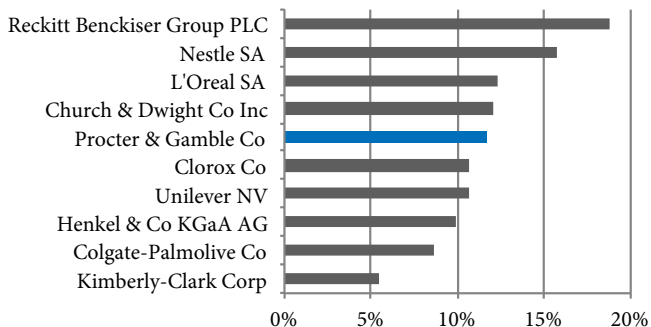
- P&G's margins are slightly above average when compared to its peers – albeit they have deteriorated in recent years, as evidenced from the higher five-year averages (see below).
- The fact that P&G is the 2nd largest company in this group, but with only slightly above average margins suggest the following possibilities:
 1. There is limited benefit to its economies-of-scale;
 2. The Company has been operating sub-optimally for sometime now;
 3. It is currently operating sub-optimally due to its turnaround efforts.
- Our view is the Company is primarily affected by #3 (with a reducing input from #2 on a legacy basis), and we suggest that the current turnaround efforts (and pressure from shareholders) will likely lead to improving margins and higher returns for shareholders in the next few years.

Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA	Market Cap (USD M)
Kimberly-Clark Corp	5.4%	35.6%	12.7%	8.7%	365.0%	6.0%	47,175
Colgate-Palmolive Co	8.6%	58.6%	27.0%	24.2%	327.2%	12.2%	59,026
Henkel & Co KGaA AG	9.9%	47.5%	18.3%	16.0%	14.8%	8.2%	42,189
Unilever NV	10.7%	41.4%	16.8%	14.5%	33.2%	11.8%	127,537
Clorox Co	10.7%	43.6%	21.0%	18.0%	274.3%	14.4%	16,557
Church & Dwight Co Inc	12.1%	44.5%	22.8%	19.9%	19.9%	9.5%	11,594
L'Oreal SA	12.3%	71.1%	20.1%	16.2%	12.9%	8.8%	95,428
Nestle SA	15.8%	48.1%	18.7%	15.4%	23.9%	5.4%	238,868
Reckitt Benckiser Group PLC	18.8%	57.7%	26.6%	24.7%	24.9%	10.9%	61,019
Procter & Gamble Co	11.7%	49.9%	20.9%	16.8%	13.6%	6.5%	223,260
Procter & Gamble Co (5yr average)	13.0%	50.0%	21.9%	17.9%	15.6%	8.0%	
Median	10.7%	47.5%	20.1%	16.2%	24.9%	9.5%	59,026
Mean	11.6%	49.8%	20.4%	17.5%	121.8%	9.7%	77,710

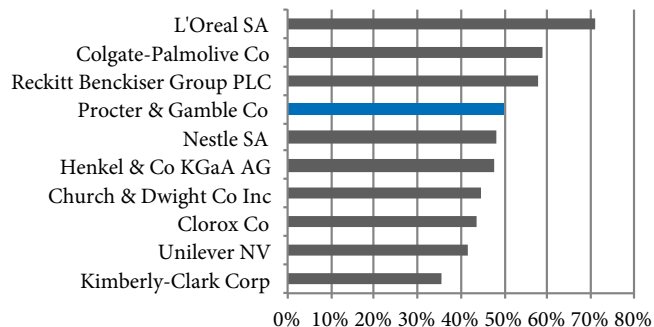


P&G: COMPARABLE COMPANIES – MARGINS AND RETURNS (2)

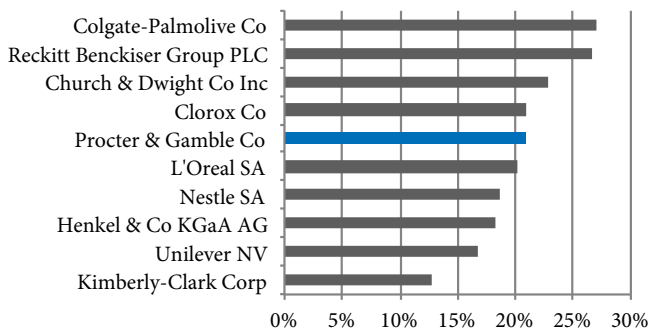
Net Profit Margin



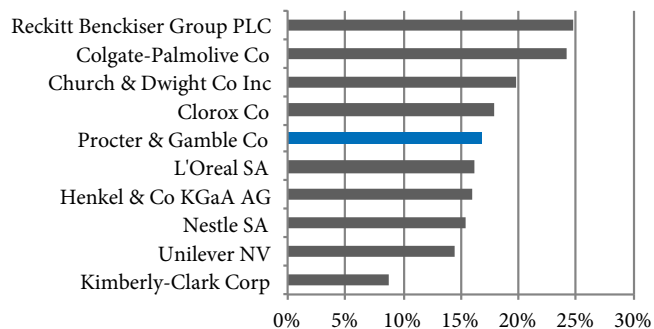
Gross Profit Margin



EBITDA Margin



EBIT Margin



P&G: COMPARABLE COMPANIES – FINANCIAL LEVERAGE

- Because of the historically steady nature of the industry, and the high levels of cash flow, FMCG businesses have relatively high levels of leverage (with the exception of Henkel and L’Oreal).
- P&G has average levels of debt relative to the industry. We expect these metrics to further improve with the “Shrink-To-Grow” strategy now in place.
- Current indications are that P&G will seek to return capital to shareholders to the tune of US\$ 70B over the next four years (31.5% of market cap and 29.0% of enterprise value), through share buybacks and dividends.

Company Name	Net Debt To EV	Net Debt To EBITDA	Total Debt to Total Equity	Quick Ratio	Market Cap (USD M)
Church & Dwight Co Inc	5.8%	92.7%	51.9%	0.72	11,594
Clorox Co	10.3%	151.4%	1,856.8%	0.74	16,557
Colgate-Palmolive Co	8.6%	123.9%	Negative Equity	0.99	59,026
Henkel & Co KGaA AG	Net Cash	Net Cash	15.4%	0.92	42,189
Kimberly-Clark Corp	13.2%	306.1%	Negative Equity	0.55	47,175
L’Oreal SA	1.6%	28.1%	12.8%	0.70	95,428
Nestle SA	7.2%	106.2%	30.2%	0.75	238,868
Reckitt Benckiser Group PLC	4.0%	79.8%	37.6%	0.46	61,019
Unilever NV	9.4%	134.0%	90.6%	0.49	127,537
Procter & Gamble Co	7.2%	107.7%	48.6%	0.83	223,260
Median	7.9%	115.0%	37.6%	0.72	59,026
Mean	7.5%	127.8%	299.3%	0.70	77,710



P&G: COMPARABLE COMPANIES – VALUATION

- While P&G does not look “absolutely” cheap when compared to peers on various key metrics below, we suggest the completion of its portfolio restructure will produce an optimised P&G that should deliver improved earnings and accordingly we believe we are actually purchasing P&G at a discounted price to its future “optimised” value.
- Additionally, a breakup into two companies as we suggest could create material value for shareholders based on historical precedents.
- The strong cash flow generation capability has allowed P&G to be one of the most consistent dividend payers in US corporate history. The high dividend yield should continue to provide a floor to its stock price in the current low interest rate environment globally.

Company Name	P/E	Forward P/E	P/S	EV/EBITDA	P/CF	P/B	Gross Div Yield	Market Cap (USD M)
Kimberly-Clark Corp	46.0	21.2	2.5	22.8	20.5	-271.3	2.7%	47,175
L'Oreal SA	29.5	24.6	3.5	17.2	21.6	3.7	1.8%	95,428
Reckitt Benckiser Group PLC	22.9	24.8	4.9	16.7	20.3	6.8	2.2%	61,019
Church & Dwight Co Inc	27.6	25.2	3.4	15.3	19.1	5.7	1.5%	11,594
Colgate-Palmolive Co	43.8	24.0	3.7	15.2	20.0	-197.4	2.9%	59,026
Nestle SA	16.1	23.1	2.5	14.3	16.3	3.7	3.0%	238,868
Henkel & Co KGaA AG	23.9	17.7	2.3	13.0	18.9	3.1	1.4%	42,189
Clorox Co	22.8	26.0	2.9	12.8	21.2	83.6	2.4%	16,557
Unilever NV	18.2	20.0	2.2	12.6	18.7	7.0	2.9%	127,537
Procter & Gamble Co	25.6	22.5	3.2	14.6	14.2	3.6	3.2%	223,260
Median	23.9	24.0	2.9	15.2	20.0	3.7	2.4%	59,026
Mean	27.9	23.0	3.1	15.5	19.6	-39.5	2.3%	77,710



P&G: KEY OPPORTUNITIES (1)

DIVESTMENT OPPORTUNITIES

P&G can benefit from further divestment of slow growth/low margin non-core assets. The recent transaction with Coty is a good example of a divestment which will add value for shareholders. P&G management could divest further assets in a number of categories either by brand or as entire segments. This could be achieved via trade sales, private equity sales or through a spin-off to shareholders.

GO-TO-MARKET CAPABILITIES

P&G is consistently ranked by leading retailers in industry surveys as a preferred supplier. P&G is also frequently ranked as the industry leader in a wide range of capabilities, including clearest company strategy, brands most important to retailers, strong business fundamentals and innovative marketing programs.

BRAND-BUILDING

P&G is a company of leading brands. It has 21 brands with annual sales of \$1 billion to more than \$10 billion, and a further 11 brands with sales of \$500 million to \$1 billion — many of these with billion-dollar potential. Nearly all of these 21 billion-dollar brands and the vast majority of the \$500 million to \$1 billion brands hold the number one or two positions in their category or segment, and they all have significant growth and value creation potential globally.

SCALE

As one of the world's largest consumer packaged goods companies, P&G has the advantage of scale across brands, businesses and operations. However, we believe the Management still have a lot of work to do to utilise this economies of scale to its advantage for the benefit of its shareholders – e.g., supply chain optimisation.

INTERNATIONAL EXPOSURE AND GROWTH

P&G is well diversified geographically, with over 60% of its revenue coming from outside North America. However, this has recently been a head-wind to earnings growth due to depreciating developing market currencies. In the long run, P&G's international exposure will be one of the major growth engines for the Company.



P&G: KEY OPPORTUNITIES (2) – SUPPLY CHAIN TRANSFORMATION*

- P&G has over 130 manufacturing sites and 200 distribution centres globally, with 7,000+ suppliers.
- P&G is currently implementing the largest supply chain redesign in the Company’s history, starting with a major redesign of its flagship supply networks in North America and Europe. It is...
 1. moving away from a dispersed supply networks that are forecast-driven, to a responsiveness-focused supply network;
 2. building six mega-distribution centres in strategic locations across US, with a distribution goal of being within one day’s transit to 80% of retailers;
 3. creating “supplier villages” next to its plants so suppliers can respond much more quickly to P&G; and,
 4. adopting a demand-driven replenishment model based on point of sale (POS) information from its retail customers.
- We believe this supply chain redesign is significant to P&G as its huge supply chain is transformed into something leaner, more efficient, and closer to its customers. By doing so, P&G could maintain/improve margins while selling products at a more competitive price.



Before - Dispersed supply networks that are forecast-driven.

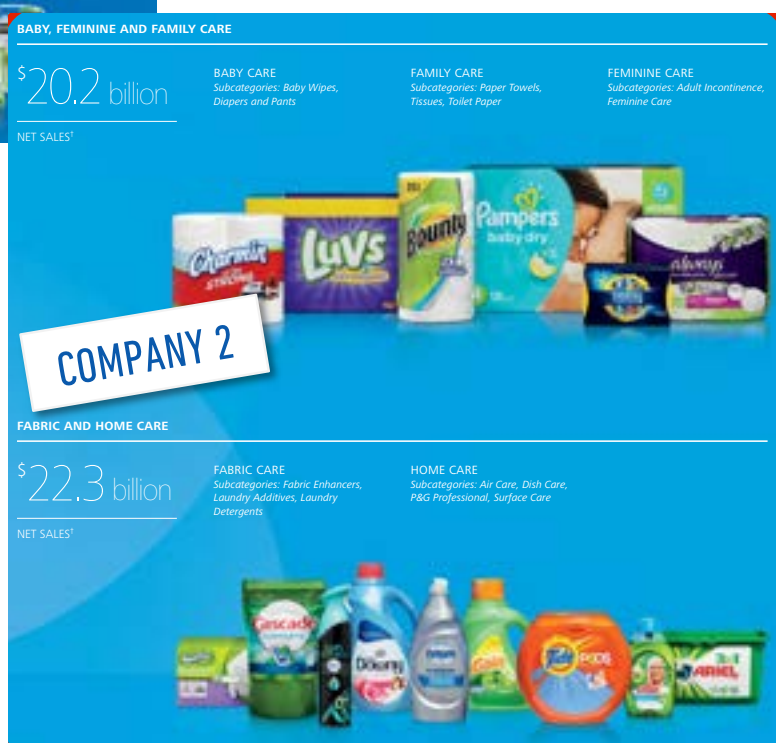


After - Redesigned supply networks with responsiveness in mind. Six mega-distribution centres with a distribution goal of being within one day’s transit to 80% of retailers.

* Comments from Yannis Skoufalos, P&G’s global product supply officer, published by Supply Chain 24/7 on 2 January 2015

P&G: KEY OPPORTUNITIES (3) – POSSIBLE BREAKUP OF P&G...

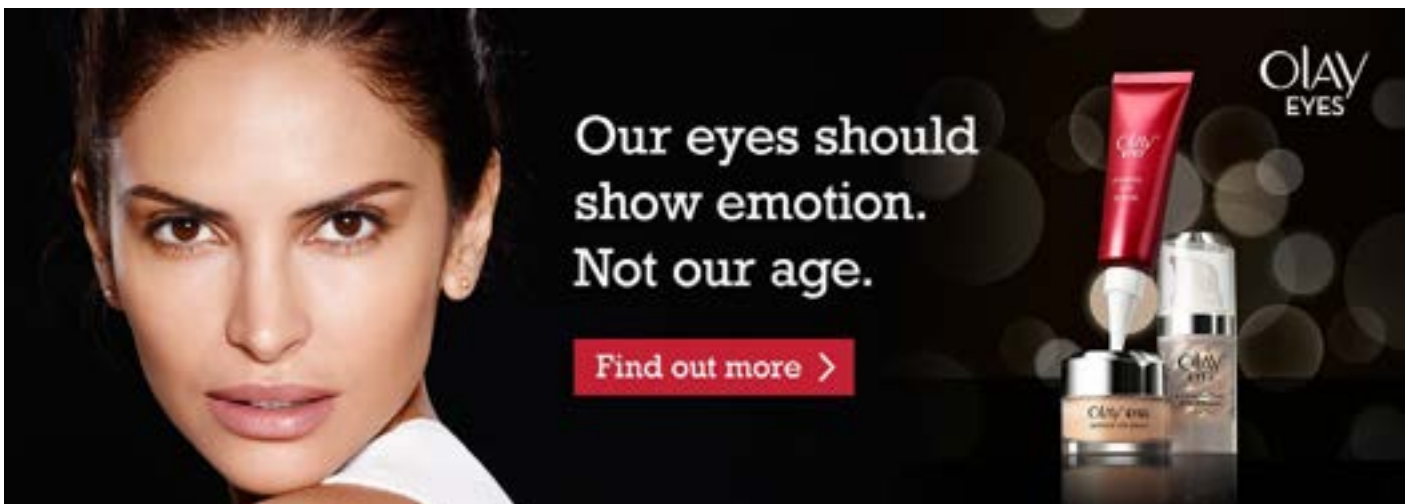
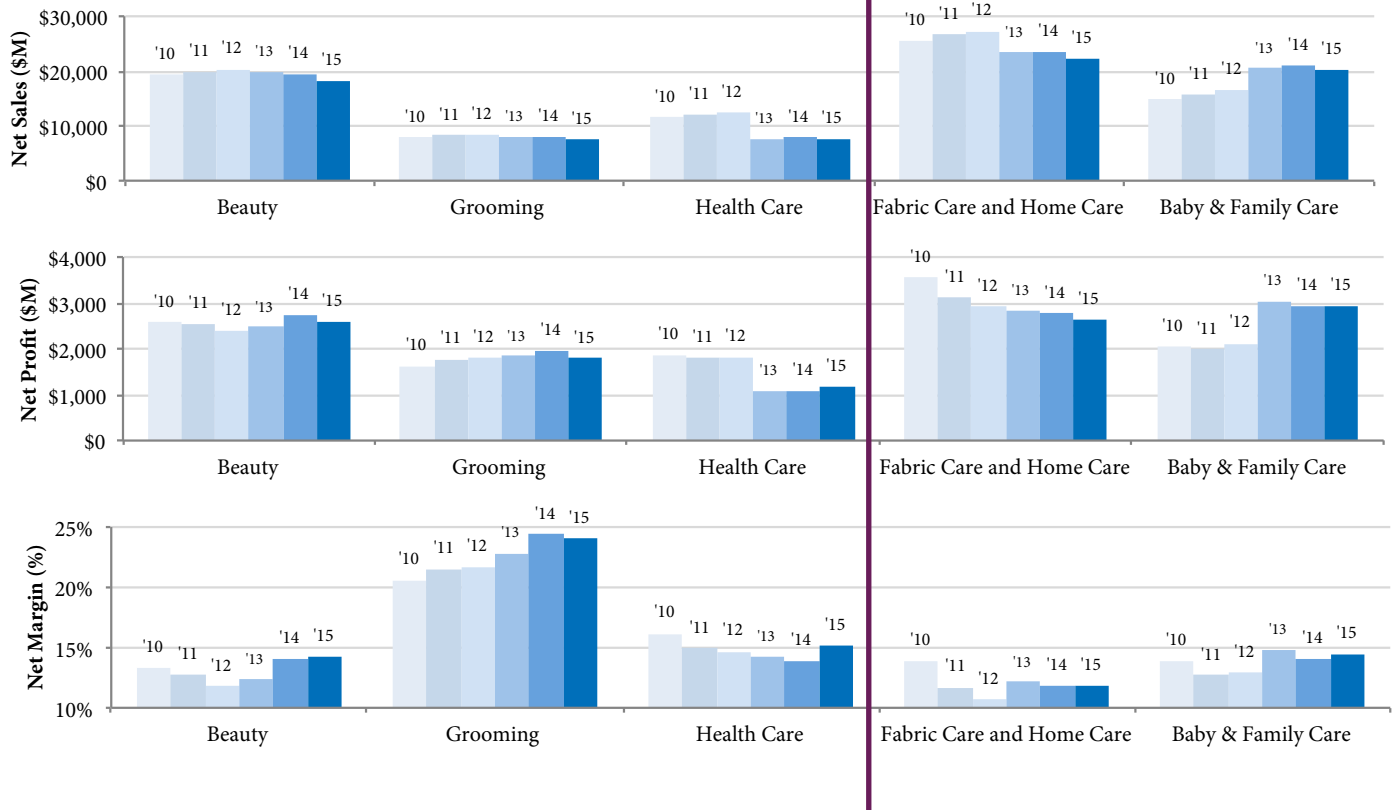
- Apart from divestments, we also suggest a possible breakup (a derivative of its “Shrink-To-Grow” strategy).
- Recent examples include Kraft Foods Inc. split into Mondelez International and Kraft Foods Group in 2012, the split up of Sara Lee, and the separation of Energizer Holdings and Edgewell Personal Care.
- Below we present one possible break-up scenario where P&G is broken up into two companies that can independently focus on their respective businesses and growth opportunities:



P&G: KEY OPPORTUNITIES (4) – POSSIBLE BREAKUP OF P&G

COMPANY 1

COMPANY 2





BREAK



WALKUP

CORPORATE BREAKUP: HISTORICAL CASE STUDY #1 – KRAFT FOODS



BEFORE

US\$73.5B

2012 MARKET VALUE



AFTER

US\$120.3B

AGGREGATED VALUE*

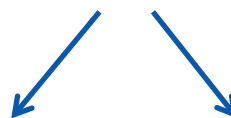
CORPORATE BREAKUP: HISTORICAL CASE STUDY #1 – KRAFT FOODS

TIMELINE

2012



Kraft Foods Pre-Split
Market Cap = US\$73.5B



Kraft Foods Group
Market Cap = US\$52.2B



Market Cap = US\$64.6B*



Market Cap = US\$93.2B*
Kraft owners own 49% = US\$45.7B

Special Dividends US\$10B

2015

CORPORATE BREAKUP: HISTORICAL CASE STUDY #2 – SARA LEE



BEFORE

US\$11.0B

2012 MARKET VALUE



JOH. A. BENCKISER SE



AFTER

US\$19.3B

AGGREGATED VALUE*

CORPORATE BREAKUP: HISTORICAL CASE STUDY #2 – SARA LEE

TIMELINE

2012



Sara Lee Pre-Split
Market Cap = US\$11.0B

Special
Dividends
US\$1.8B



JOH. A. BENCKISER SE
Acquired for US\$ 9.8B



Acquired for US\$7.7B

2014

P&G: KEY RISKS (1)

COMPETITIVE ENVIRONMENT

P&G can benefit from further divestment of slow growth/low margin non-core assets. The recent transaction with Coty is a good example of a divestment which will add value for shareholders. P&G management could divest further assets in a number of categories either by brand or as entire segments. This could be achieved via trade sales, private equity sales or through a spin-off to shareholders.

STRONG US DOLLAR

A number of US based multinationals have struggled with the strengthening US dollar over the past two years. Given the prospect of the Federal Reserve increasing the Federal Funds rate further in 2016, the risk of further increases in the USD is very real. This will impact both revenue and earnings.

SENSITIVITY TO MACROECONOMIC CONDITIONS

Fast Moving Consumer Goods are often less sensitive to macroeconomic cycles than discretionary goods because consumers have to buy them regardless of the economic situation. However, certain categories in which P&G operates such as beauty are more vulnerable to economic fluctuations.

THE WALL STREET JOURNAL

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BUSINESS | EARNINGS

P&G Fails to Shake Continued Weakness

Sales in latest quarter fell 9%, dragged down by dollar; outlook is cautious



Quarterly sales at P&G, maker of Tide detergent, declined 9%. PHOTO: SCOTT HAY

By SERENA NG and ANGELA CHEN
Updated July 30, 2015 4:00 p.m. ET

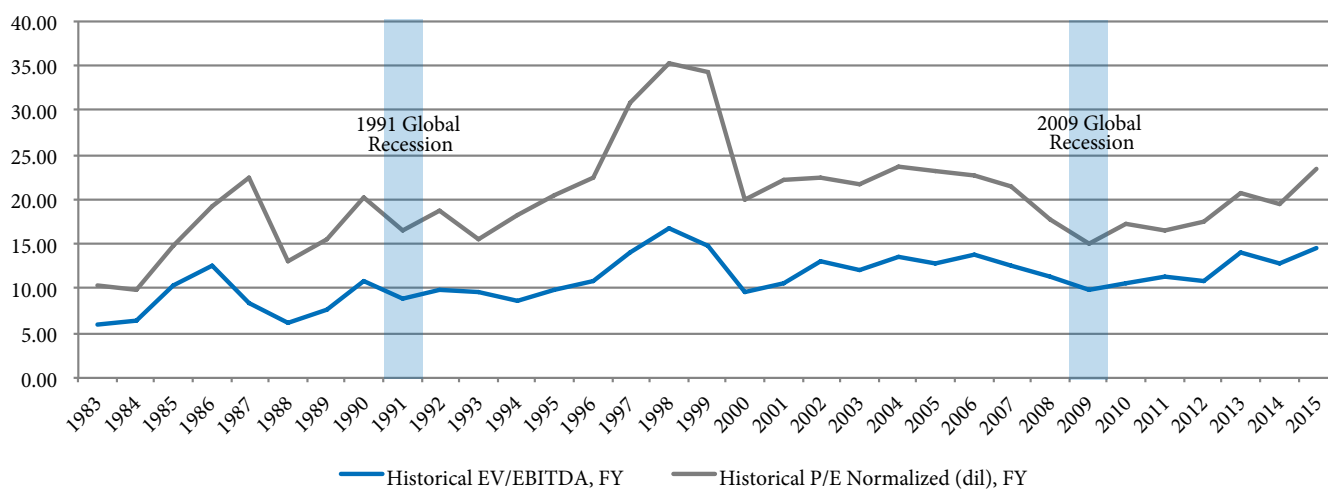
Growth remains elusive at Procter & Gamble Co.

Sales growth decelerated at the world's largest consumer-products company in the past year, underlining the depth of challenges it faces as it completes the exits of close to 100

P&G: KEY RISKS (2) – GLOBAL RECESSION

- According to IMF, there have been four global recessions since WWII (1975, 1982, 1991, 2009).
- In the last two global recessions, P&G traded at an average of EV/EBITDA of 9.4x (vs 14.6x currently), and P/E of 15.9x (vs 25.6x currently).
- If P&G were to trade at a historical global recession EV/EBITDA multiple of 9.4x, the implied share price would be US\$ 53.37* which is 35% lower than the current share price of US\$ 82.55** and 27% lower than Elevation Capital Value Fund's cost basis of US\$ 74.34 per share**.

Historical EV/EBITDA and P/E Valuation



Data Source: Thomson Reuters Eikon as at 2 March 2016

* Based on EC Normalised EBITDA of US\$ 16.91B

** As at 2 March 2016

P&G: KEY RISKS (3)

REGULATION, TRADE AGREEMENTS AND TAX REGIMES

P&G operates in a number of regions and countries throughout the world and is therefore exposed to changes in regulations and tax regimes in many jurisdictions. Changes are particularly frequent in emerging markets which P&G has focused on in recent years. Likewise, the imposition of increased or new tariffs, quotas, trade barriers or other restrictions on trade may have an adverse impact on P&G.

MANAGEMENT OF ACQUISITIONS, DIVESTMENTS AND JOINT VENTURES

P&G are constantly undertaking transactions such as acquisitions, divestitures and joint ventures. If management fail to realise full value from a divestment, overpay for, or fail to integrate an acquisition or fail to manage a joint venture adequately investors may be adversely affected.

FINANCIAL TIMES

Last updated: July 9, 2015 6:06 pm

Procter & Gamble sells beauty arm to Coty in complex deal

Lindsay Whipp in Chicago and Arash Massoudi in London



Procter & Gamble has agreed to spin off Clairol and 42 other beauty brands to Coty in a complicated \$12.5bn-plus deal that largely completes the divestitures promised by the world's largest consumer goods company as it narrows its focus on its biggest businesses.

P&G has proposed to execute the split off — which includes the sale of its salon professional and retail hair care and colour, cosmetics and fragrances businesses — via a so-called Reverse Morris Trust transaction.

This enables P&G to minimise tax and will result in a one-time gain of \$5bn-\$7bn, depending on the deal's value when it closes. P&G shareholders will exchange some or all of their current holdings for 52 per cent of the company created by the deal, with Coty shareholders owning 48 per cent.

P&G also announced that it would return \$70bn to shareholders over the next four years in addition to its existing buyback programme.

P&G: ELEVATION CAPITAL CONCLUSION

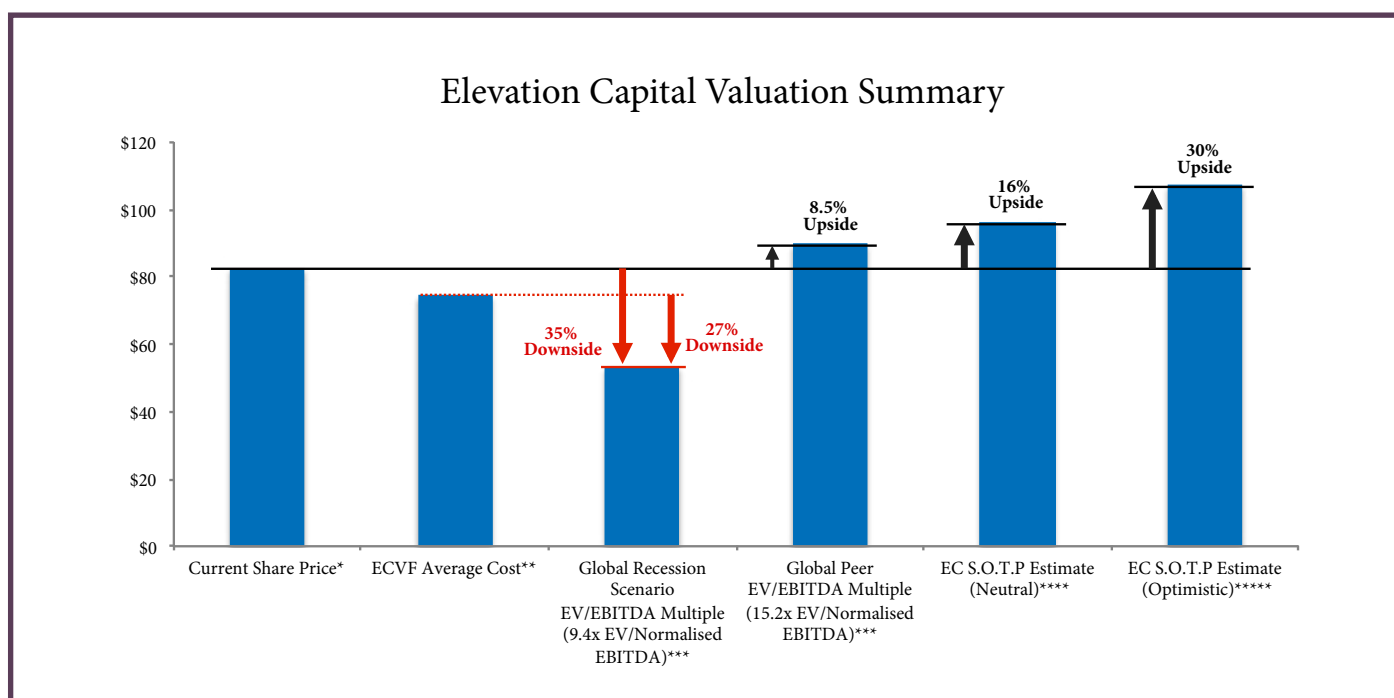
- P&G has the advantage of economies of scale and brand power, but it is not reflected in current financial results primarily due to a weak consumer environment globally for premium brands, an inefficient supply chain, and a strengthening US Dollar.
- P&G is well diversified geographically, with over 60% of its revenue coming from outside North America. However, this has recently led to volatility upon currency translation. In the long run, the international exposure will allow it access to the highest growth regions in the world.
- P&G pays a dividend which yields above its peers at 3.2% and it has similar debt levels relative to its peers.
- Most importantly, P&G has the chance to divest a number of assets which will allow it to focus on the segments in which it performs best. This is expected to maximise value for shareholders, allowing the Company to return significant sums of cash in the form of dividends or buybacks – up to US\$70B by 2019 (31% of current market cap).
- We also suggest the possibility of breaking up the Company to further optimise and release value for shareholders. The two separated smaller companies (which are suggested on page 37) could also reverse the perception of a “slow-to-react” culture and allow more efficient execution to take on competitors in a fast changing consumer environment.
- P&G is currently trading at a discount to our Sum-of-the-Parts (“SOTP”) valuation estimates, with an upside potential range of +8.5% to +30%. In our global recession scenario analysis, P&G has a downside risk of -35% from current prices (-27% from Elevation Capital Value Fund’s cost basis).
- On review such a downside scenario of -27% seems unattractive from an investor’s perspective. We may concur if it were any other company than P&G. However, P&G has many levers to pull to deal with a global recession scenario but also to further optimise its business as outlined in this presentation. We also believe our breakup scenario in all likelihood would prove conservative if such a transaction were to occur - something we believe should happen if current management cannot deliver clear improvements in the business over the next few years.

P&G: ELEVATION CAPITAL - ESTIMATED INTRINSIC VALUE RANGE

US\$ 53.37 – US\$107.13 PER SHARE

Upside Potential Range:
(vs Elevation Capital Cost Basis)

+8.5% – +30%



* Current Share Price = US\$ 82.55 (as at 2 March 2016)

** Elevation Capital Value Fund ("ECVF") Average Cost = US\$ 74.34

*** Based on EC Normalised EBITDA of US\$ 16.91B

**** SOTP Valuation based on the following EBITDA Multiples: Beauty: 15.7x, Grooming: 15.7x, Health Care: 15.2x, Fabric Care and Home Care: 13.1x, Baby, Feminine and Family Care: 13.5x

***** SOTP Valuation based on the following EBITDA Multiples: Beauty: 17.2x, Grooming: 17.2x, Health Care: 16.7x, Fabric Care and Home Care: 14.4x, Baby, Feminine and Family Care: 14.9x

