Summer Stock Pitch Competition

28th May, 2013

Agenda

About the Stock Pitch Competition (I)

Objectives

- Select stocks for the Student Investment Fund
- Allow students to practice a fundamental skill for Investment Management and Investment Management interviews

Description

- Three annual competitions (Aut/Spr/Sum)
- 5-6 finalists chosen to present their ideas to judges
- Winning stocks will be added to the Student Investment Fund the following day

About the Stock Pitch Competition (II)

Rules

- Participants have to select a stock that represent a good investment opportunity and put together a convincing recommendation

- Company must be listed on one of the following exchanges:
  - USA: NYSE, NASDAQ, AMEX
  - Canada: TSE, Canadian Venture Exchange
  - Europe: LSE, Paris Bourse, Deutsche Bourse, Amsterdam SE, Madrid SE, Borsa Italiana, Brussels SE, Swiss Exchange, Stockholm SE
  - Asia: Australia SE, Hong Kong SE, Singapore SE, Tokyo SE

- Market capitalisation must be over $50m

- Daily Liquidity/Volume: >$250k (3mo avg.)

- Finalists will be invited to pitch their idea in front of the judges at the final round

Agenda

1 About the Stock Pitch Competition

2 Student Investment Fund update- Professor Ramsden

3 Competition's Judges

4 Stock Pitch Finalists

5 Student Presentations

6 Judges' final decision

Agenda

1	About the Stock Pitch Competition
2	Student Investment Fund update
3	**Competition's Judges**
4	Stock Pitch Finalists
5	Student Presentations
6	Judges' final decision

Competition's Judges

Jon Guinness, *Fidelity Worldwide Investment*

Jon joined Fidelity in of 2005 as an MBA intern and re-joined Fidelity in Autumn 2006, upon graduating from LBS. He has covered UK Non-Food Retail, UK Housebuilders and Builders, and Large Cap Telecoms, and was a TMT Team Leader. Now Jon covers US Consumer companies for the Global Team and has previous experience at Bain.

Nick Westlake, *Numis Securities*

Nick is a Director in the corporate finance department at Numis Securities. He has been at Numis since 2004 and before that was a corporate lawyer for 6 years. He advises small and mid size companies on IPOs, secondary fund raisings and mergers and acquisitions.

Agenda

Stock Pitch Finalists

- **Prithish Ray,** MIFFT2013
CST

- **Erica Kim,** MBA 2013
Temper-Pedic Internaional

- **Chuck Chmura,** MIFFT2013
Rovi

- **Krishantha Vidane,** MiFFT2013
Albemarle & Bond

- **Tarun Doss,** MIFFT 2013
Paperlinx Step-Up Preference Shares

Agenda

BUY common stock of CST Brands (NYSE:CST)

CST Brands

Investment Thesis

- Market is yet to realise true value of spin-off (88% institutional holdings)
- Trading at a discounted 11.5x PE relative to peer average of 20x
- Gross margin (10%) is lower than most peers (10-16%)
- CST is under-earning compared to its potential
- Margins can easily expand through:
  - optimising the product mix
  - investing in larger new-to-industry (NTI) stores
- Market will realise true earning potential in 18 to 24 months
- PE multiples of at least 17x justified by 2014

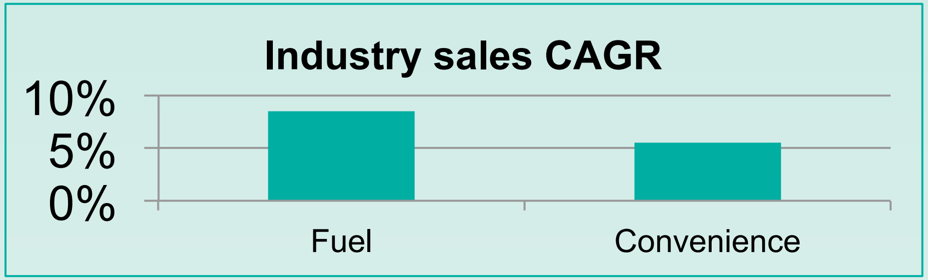
Buy CST at $33 with a price target of $48 => 45% upside

How does CST make money?

CST
Brands

Fuel and Convenience retailer in US and Canada

- Robust and steadily growing industry with $ 700bn revenue
- CST has two main businesses:
  1. **Motor Fuel** (85% of sales)
  2. **In-store** (15% of sales)



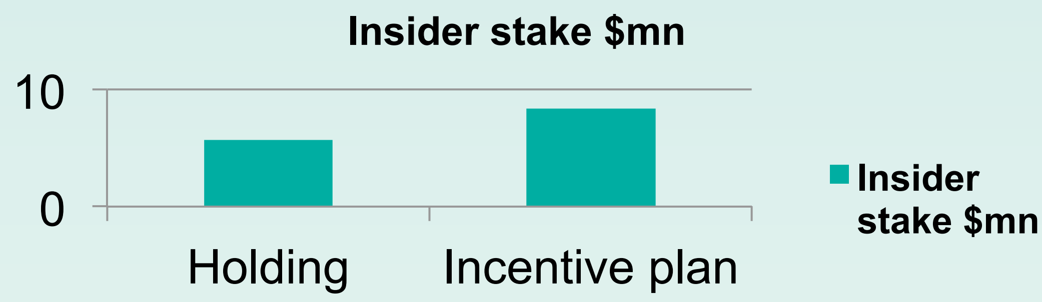
- Fuel margins are narrow 15-25 cents/gallon but relatively stable
- Profitability is driven by convenience retail sales (15-40% gross margin)
- Fragmented industry: 63% of all U.S. stores run as single-store independents
- Ripe for consolidation: Significant advantages to economies of scale
- CST's market share = 1.85%

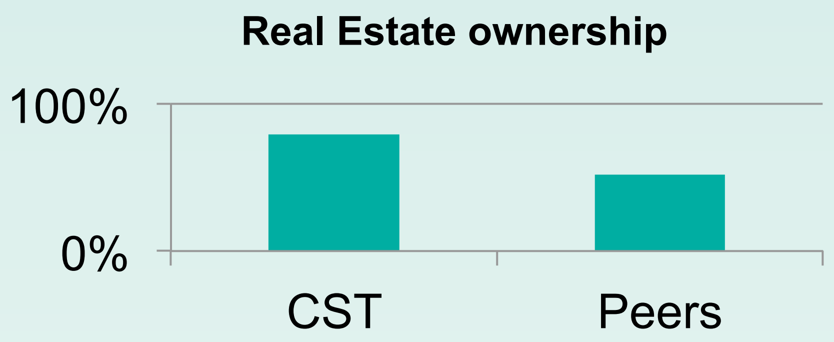
Stable growth industry heading towards consolidation

Why do I like CST's business?

CST Brands

- Second largest player in North America
- Exposure to growing markets
- Significant insider incentives
- Noteworthy real estate ownership
- Long term price contracts with Volero
- Opportunities for industry consolidation



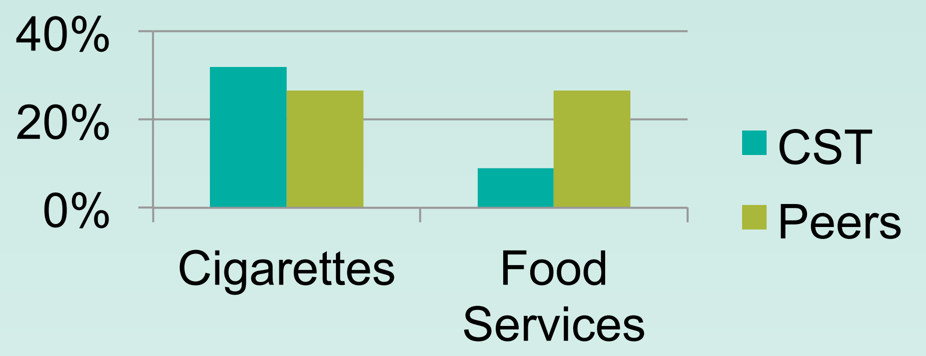


Industry leader with a strong competitive position

Why is CST trading at a discount to peers?

CST Brands

- Under-managed retail stores
- Low investment and growth
- Narrow gross margins due to poor product mix



Company Name	Market Cap $ bn	Gross Margin	PE LTM
Alimentation Couche-Tard Inc. (TSX:ATD.B)	10.8	13%	20.1x
Casey's General Stores, Inc. (NasdaqGS:CASY)	2.4	16%	21.5x
Susser Holdings Corporation (NYSE:SUSS)	1.1	10%	22.7x
The Pantry, Inc. (NasdaqGS:PTRY)	0.3	11%	NM
CST Brands, Inc. (NYSE:CST)	2.5	10.30%	11.5

In-store Gross Margins

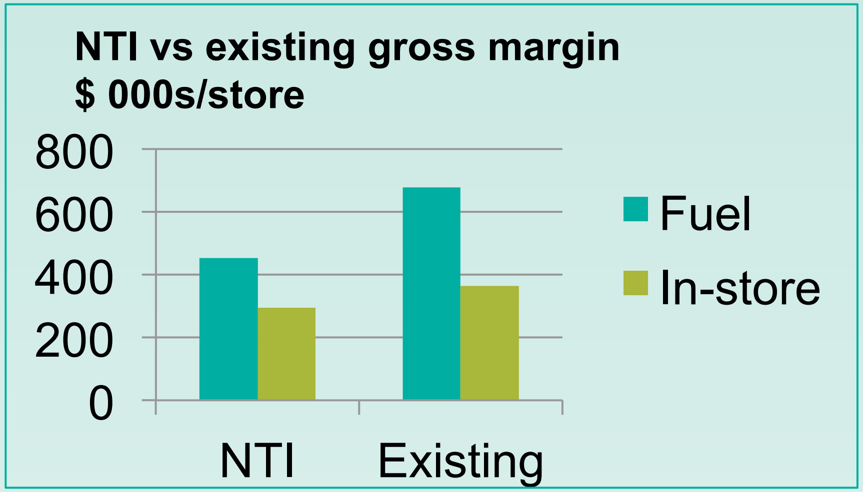
Merchandise	Margin
Candy and ice-cream	46-49%
Beverages	39%
General Merchandise	37%
Beer	19%
Cigarettes	15%

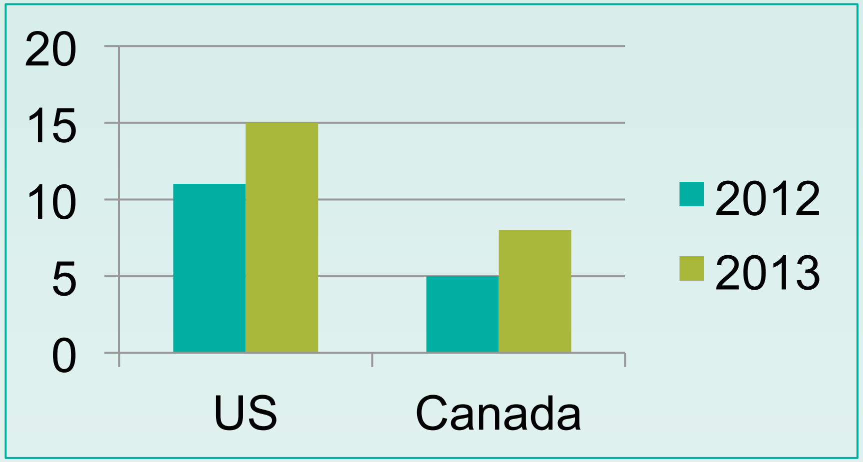
CST has the opportunity to bridge the valuation gap

How can CST create shareholder value?

CST Brands

- Investment in NTI stores (>10,000 sq. ft)
  - Planned 50 net stores per year going forward (3% growth)
  - Capex requirements (~$220mn) can be met by operating cash ($364mn)
- Focus on higher margin products and services (2% points net margin gain)
  - Investment in food services
  - Development of in-house brands





Forecast 3% y-o-y growth in earnings + 2% margin expansion

How to value CST?

CST Brands

2014 PE

- Expected income growth 3% growth per annum + 2% margin expansion
- Latest LTM EPS $ 2.88. Estimated 2014 EPS = $3.1
- Apply a conservative 17x PE multiple (15% discount to peers)
- 2014 Target price = 3.1 X 17x = **$53**

2014 EV/EBITDAR

- Expected EBITDAR growth 3% growth per annum + 2% margin expansion
- Latest LTM EBITDAR $ 478 mn. Estimated 2014 EPS = $517 mn.
- Apply a 8.5x EV/EBITDAR multiple (15% discount to CASY)
- 2014 Target EV = $ 4397 mn. MV = $ 3592 mn. Target share price =**$ 48**

Buy CST at $33 with a price target of $48 => 45% upside

Key financials

Priced at	27-May-13	Current price	33.09	NOSH millions	75.4	Ret. on Tang Cap.	20%
Market Cap	2,495	Target price	53	Net Debt	805	Ret. On Equity	17%
EV	3,300	P/E LTM	11.5	EBIT LTM	325	EBIT Margin	3%
EPS	2.88	Price /TBV	1.9	EV/EBIT LTM	10.2	EBIT CAGR 3yr	0.1
All values in USD millions, except per share data and ratios.							

Buy CST at $33 with a price target of $48 => 45% upside

Tempur-Pedic International (TPX)

IMC Summer Stock Pitch Competition

Erica Kim, MBA2013

Cheap considering high growth and returns

- **Recommend BUY**; Target price range $60-65 (40-50% upside)
- **Investment thesis:**
  - Strong brand, constantly reinforced through advertising and word-of-mouth, allows the company to price at a premium
  - Market seems to be underestimating positive impact from merger (e.g. consensus estimates forecasting flat margins from 2014)
- **Valuation:**
  - Currently trading at 16x 2013 consensus earnings, 13x 2014
  - Given >10% EBIT growth and >20% return on tangible capital, I believe stock should trade at 20x PE
  - DCF (10% discount rate, 2% LT growth) supports target price
- **Risks:** Post-merger integration; however,
  - "[Cost synergies are] coming in slightly higher and slightly faster than planned." – Mark Sarvary, CEO, President and Director
  - Sealy's CEO Larry Rogers is part of new management team

Leader in the growing specialty segment

- **Bedding industry overview**
  - $20bn global mattress and pillow market ($7bn US) of which $6bn is the premium segment
  - Specialty mattress category was 33% of overall US mattress industry is 2012, up from 22% in 2008
  - Main competitors are Select Comfort (SCSS), Serta and Simmons
- **Company overview**
  - Post-merger market share: ~13% of global market (traditional + specialty), ~25% in specialty segment
  - Historical financials (2002-2012):
    - Revenue CAGR: 17% (vs. 11% for SCSS and 1% for Sealy)
    - Consistently high profitability: Average gross margin 50%, operating margin 20% (exception: 43% and 14% in 2008)
    - Continuous spend on advertising: 11% of sales (vs. Nike 12%, P&G 11%)

Key assumptions do not seem aggressive

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Global market size				20,000	21,000	22,050	23,153	24,310
Growth					*5%*	*5%*	*5%*	*5%*
Tempur-Pedic's market share				13%	14%	16%	17%	17%
Net sales	1,105	1,418	1,403	2,525	3,030	3,485	3,833	4,217
Growth		*28%*	*-1%*	*80%*	*20%*	*15%*	*10%*	*10%*
Cost of sales	550	675	688	1,414	1,682	1,917	2,108	2,319
As % of sales	*49.8%*	*47.6%*	*49.1%*	*56.0%*	*55.5%*	*55.0%*	*55.0%*	*55.0%*
Gross profit	555	743	715	1,111	1,348	1,568	1,725	1,897
Gross margin	*50.2%*	*52.4%*	*50.9%*	*44.0%*	*44.5%*	*45.0%*	*45.0%*	*45.0%*
SG&A	310	403	466	808	939	1,045	1,112	1,181
As % of sales	*28.0%*	*28.4%*	*33.2%*	*32.0%*	*31.0%*	*30.0%*	*29.0%*	*28.0%*
Operating income	246	341	248	303	409	523	613	717
Growth		*38.5%*	*-27.1%*	*22.0%*	*35.0%*	*27.8%*	*17.3%*	*16.9%*
Operating margin	*22%*	*24%*	*18%*	*12%*	*14%*	*15%*	*16%*	*17%*
Other expense, net	-15	-12	-19	-80	-60	-40	-20	-20
Income before income taxes	231	328	229	223	349	483	593	697
Income tax provision	74	109	122	71	113	157	193	226
Income tax rate	32%	33%	53%	32.0%	32.5%	32.5%	32.5%	32.5%
Net income	157	220	107	152	236	326	400	470
Shares outstanding	70.3	67.1	61.5	61.6	61.7	61.7	61.7	61.7
EPS	2.24	3.27	1.74	2.46	3.82	5.28	6.49	7.62
Growth		*46%*	*-47%*	*42%*	*55%*	*38%*	*23%*	*17%*

Insider trades and possible catalysts

- **Insider trades**
  - Management does not own a lot to begin with (2.52%)
  - Stock option, restricted stock issuances in Feb/Mar 2013
  - Recent sales in March do not seem meaningful and reflect management team changes (e.g. retirement of Matt Clift, EVP of Global Operations)
- **Catalysts**
  - Investor Day in Fall 2013 (likely September) – management to provide update on integration as well as announce long-term plans
  - Positive feedback from rollout of new product lines in 2Q/2H13

Appendix – DCF valuation

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
After-tax EBIT	206	276	353	414	484	523	564	593	622	635
Growth		*34%*	*28%*	*17%*	*17%*	*8%*	*8%*	*5%*	*5%*	*2%*
PV of future cash flow	187	228	265	283	300	295	290	276	264	245
PV of terminal value										3,120
Enterprise value	5,753									
Net debt (as of 1Q13)	1,906									
Equity value	3,847									
Equity value per share	62.45									
Current price	43.08									
Upside	45.0%									
Discount rate	10%									
Growth rate	2%									

Appendix – Key assumptions

- **Revenue assumptions**
  - Company does not disclose unit sales
  - Assume global market to grow 5% per annum in 2014-2017 and Tempur-Pedic's combined market share to increase from 13% in 2013 to 17% in 2017
  - This translates to 10-20% revenue growth
- **Cost assumptions**
  - Even without cost synergies, the elimination of a competitor from the market should lead to improved margins due to less promotions, greater bargaining power over suppliers and distributors
  - Merger will lower gross margin from 51% in 2012 to 44% in 2013E, reflecting Sealy's lower profitability; assume this increases to 45% in 2017E
  - Less competition should eventually lower SG&A to historical level of 28% of revenue
  - Consensus (albeit limited Wall Street coverage) is forecasting margins to stay flat from 2014, which does not seem realistic

Rovi Corporation

May 28 , 2013

Chuck Chmura

Summary

- I think that Rovi Corporation is a BUY.
- Share price depressed after an unsuccessful acquisition + poor consumer electronics (CE) division operating performance.
- New management is focusing the business on its core recurring revenue, high margin, high ROIC business lines.
- Stock is cheap based on management's low estimates of normalized earnings.
- Based on Rovi's core business I value the company at a price of ~$32, implying ~30% upside.
- Rovi is well positioned to take advantage of the as entertainment media is delivered to users digitally and on multiple devices.

Business Segments

- **Service Providers**: This segment licenses ***IPG's or related patents to Service Providers*** (cable, satellite, telecom, mobile, internet providers) to use in their own IPG's or in 3rd party IPG's. ROVI also offers operational support, content, professional services and data to IPG clients. ROVI charges a monthly subscriber fee/online fee based on unique users or a flat fee.
- **CE Discovery & Advertising**: ***Incorporates IPG's into mid to high-end plasma and LCD televisions*** and Blu-ray or DVD hard drive recorder based products. Also provides advertising analytics that it gathers from end users.
- **CE Video Delivery & Display**: This segment includes ***DivX*** which ROVI acquired along with 2 smaller business in its acquisition of Sonic in 2010. DivX is a product which compresses lengthy video segments into small sizes while maintaining relatively high visual quality. DivX codecs can either be downloaded from the internet or are preinstalled in CE products.
- **Other**: Includes ROVI's ***databases*** of music, television, movie, book, and video game metadata. ROVI uses this data to support various search functions in its IPG segment.

Revenue Contribution by Reported Segment	*2008*	*2009*	*2010*	*2011*	*2012*	*2013E*
Service Provider	37%	48%	49%	43%	49%	52%
CE Discovery and Advertising	48%	41%	40%	24%	20%	27%
CE Video Delivery and Display	0%	0%	0%	24%	22%	13%
Other	15%	11%	11%	9%	9%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Contribution by Strategic Area of Focus	*2011*	*2012*	*2013E*
Discovery & Advertising	67%	69%	79%
Video Delivery & Display	24%	22%	13%
Other	9%	9%	9%
Total	**100%**	**100%**	**100%**

	2008	2009	2010	2011	2012	2013E
% International Revenue	**47%**	**50%**	**48%**	**50%**	**55%**	**n/a**

Customers

Entertainment

Consumer Electronics

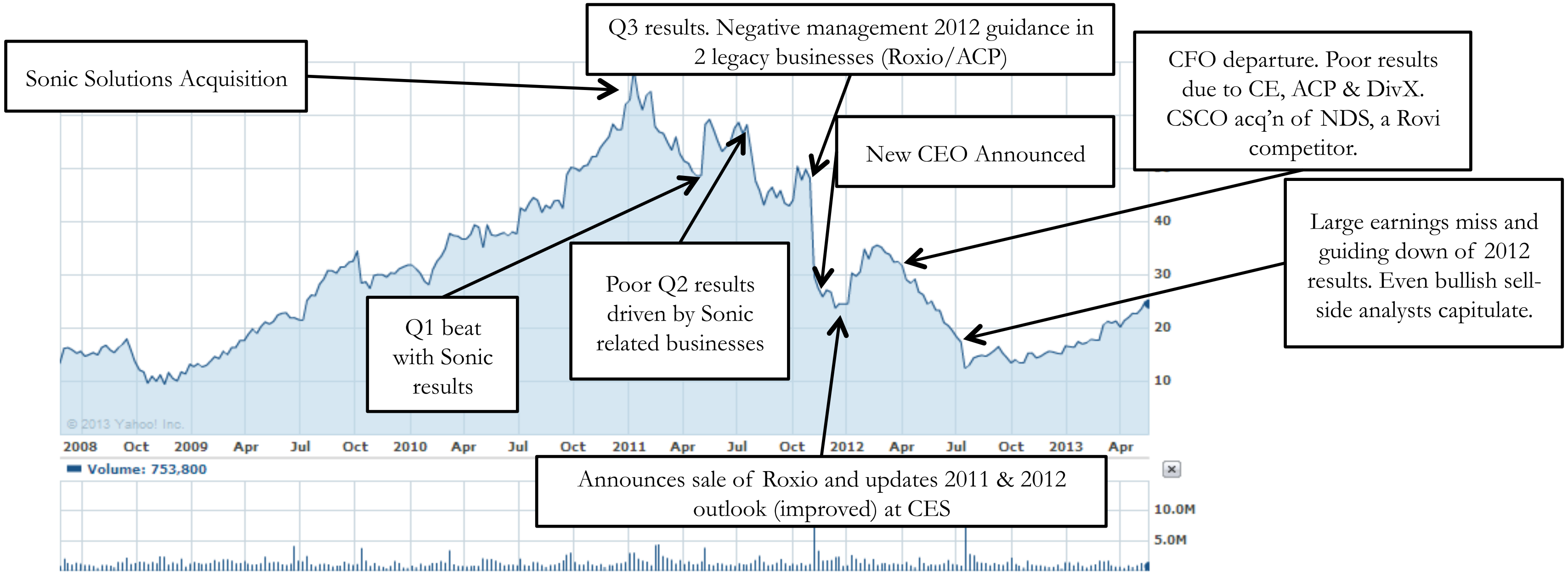
Advertisers

Service Providers

Portals

What Went Wrong?

- **Unsuccessful Sonic Solutions Acquisition**
  - Purchased Sonic Solutions for ~$775mm (cash & stock) in late 2010
  - Sonic's business lines included DivX, RoxioNow, and a business that was later rebranded as the Rovi Entertainment Store (RES)
  - After poor performance Rovi sold RoxioNow in early 2012 (proceeds $18mm)
  - In early 2013, Rovi announced that it would seek to sell RES (2012 sales: $15mm)
  - DivX has significantly underperformed with revenues going declining from $166mm (2011), $141mm (2012), and estimated by management to decline to $81mm (2013E)
- **CE division**
  - In 2012, CE macro headwinds cause CE Discovery revenues decreased by 22% (management expects CE IPG licensing revenue to increase as Rovi enters into renewals)



Opportunity

- **Recurring revenue**
  - 90% of licensing revenues are under long term contract (this falls off in 2015/2016 as certain contracts are up for renewal – potentially at higher rates given Rovi's demonstrated pricing power).
- **Pricing power**
  - In 2012 Service Provider revenue growth of 6% primarily attributed to price increases on renewals (Anecdotal evidence of re-pricing of renewals at 20% higher rates).
- **Strong market share**
  - Rovi's penetration rate is 88% of US & Canada Pay TV Households (22% worldwide).
- **New management**
  - New management is focused on proper allocation of capital to recurring revenue, high margin, high ROIC opportunities (Management is changing the way the business is described – by strategic area of focus – more inline with underlying economics).
  - Excess has been returned to shareholders via share buybacks. Five year gross repurchases of $620mm, net repurchases $430mm.
- **Historical Return on tangible capital (ROTIC)**
  - In excess of 100% in recent years.
- **Marginal ROTIC**
  - By management's estimate they can increase after tax operating income by over $30mm/year with approximately $20mm of capex spend (consistent with historical).
- **Growth**
  - Rovi is in a position with their TotalGuide products to take advantage of content moving to digital and multi-device.
  - Ability to provide advertisers with advanced analytics.

Sustainable Competitive Advantage?

- **Pricing Power**
  - In 2012 Service Provider revenue growth of 6% primarily attributed to price increases on renewals
    - Anecdotal evidence of re-pricing of renewals at 20% higher rates
- **Competition**
  - Most frequent source of competition is a customer who chooses to build its own IPG and license Rovi's IP
- **Size**
  - Cost of licensing Rovi's patent portfolio is a negligible cost to Rovi's customer
- **Innovation/Upkeep**
  - Rovi has spent and forecasts to spend approximately 20% of revenues on R&D expenses (~$140mm/year)
  - Rovi dedicates 300+ employees to maintaining its media databases alone
- **Reputation & Customer Relationships**
  - Rovi and its predecessor companies have been operating since 1981 when it invented the first IPG*
  - In 2012, Rovi was awarded the Technology & Engineering **Emmy Award** for "Pioneering On-Screen Interactive Program Guides"
  - Rovi's customers, with whom Rovi has had very long term relationships, include blue chip service providers, CE companies, media companies, and advertisers
  - **Rovi patents** are necessary even for its competitors
  - On March 15, 2012; Cisco announced the $5bn acquisition of NDS, a Rovi competitor in the Service Provider space. Just one month later, NDS and Rovi extended their IPG license agreement for another 5 years.

**United Video Satellite Group (TV Guide) merged with Gemstar in 2000. Gemstar was acquired by Macrovision in 2008 to create Rovi.*

Valuation

- Given Rovi's high returns on tangible capital and operating income growth from its core business, I value Rovi at 15-17x normalized low case 2013E EPS forecasts and arrive at a price of $29-$33 per share implying 15-35% upside.
    - *Base case upside: 25-45%*
    - *High case upside: 35-50%*

- Based on an owner's earnings approach, using management's low case scenarios for growth and margins, I estimate the value for Rovi shares at $32 (30% upside).
    - *Base case upside: 45%*
    - *High case upside: 70%*

- Both these approaches do not factor in growth from the upside from further disruption in the IP delivery of media.

Albemarle & Bond
HOLDINGS PLC

May 28, 2013

Krishantha Vidane (MiFFT2013)

London Business School

Investment thesis: Albemarle & Bond is a BUY

- A leading Jewellery-led pawnbroker in UK
- Market cap of £ 71.36 million
- Trading at £ 1.28
- P/E ratio 5.5x
- Recent drop in gold price has driven the stock price low
- While the drop in the gold market should affect the whole industry

  Albemarle & Bonds' most comparable direct competitor trading at

  a higher multiple of 7.6x

Disproportionate drop in price provides an opportunity to buy at an attractive price

Price target: £ 1.84 => 43% upside

Albemarle & Bond HOLDINGS PLC

Company Overview

- A leading Jewellery based pawnbroker in UK since 1983
- Jewelry based pawnbroking is still a small part of UK's non-standard credit market
- Only two other companies in this category with more than 50 stores in UK

  Its **biggest comparable competitor is H&T Group**
- Business Mix

Segment	Gross profit
Pawnbroking	50%
Gold Purchasing	31%
Retail Sales (Jewellery etc.)	9%
Other Financial Services	10%

Albemarle & Bond HOLDINGS PLC

Industry: Consumer Credit – High cost credit

KEY CHARACTERISTICS

- Lending to low income has higher risk of default
- Borrowers want to make weekly payments in cash
- Relatively small amount for a short period
- Mainstream lenders are reluctant to enter this market
- Lenders of last resort
- Borrowers needs and circumstances are diverse
- Lenders usually provide more than one product
- Lender have different lending requirements, which result in different demographics for different products

Pawnbroking

- The UK pawnbroking market size in 2012 was £851m
- Annual growth of 15% in the past
- Collateral: Jewellery => Less risky for the lender
- **Trust, Brand recognition and customer service quality** is more important rather than getting the best rate

  Why? **Items pawned are of sentimental value**
- Majority (80%) of loan pledges are redeemed
- Lender must posses the skills to related to evaluating the value of item
- Lowest rate compared to other products (~ 7% monthly, APR 100%)
- Average loan size around £ 100 ~ £ 150
- Customers are typically female aged between 35-55 years

Sources: National Pawn Brokers Association (NPA), Office of Fair Trading (OFT)

Albemarle & Bond HOLDINGS PLC

Pawnbroking

Key profit drivers

Short-term: PLEDGE BOOK SIZE

- Higher pledge book size results in higher revenue

Long term: STORE COUNT

- Geographic market for pawnbroking is small. **Customers do not travel far to visit their stores**.

Other factors

BRAND RECOGNITION (TRUST) & CUSTOMER SERVICE

- 71% of customers are loyal to one pawnbroker

This is often within short proximity to home

Comparison with H&T Group

Business Mix of Albemarle & Bond vs. H&T Group

Revenues	Albemarle & Bond		H&T Group	
Pawnbroking	34.8	29.5%	28.4	21.9%
Gold Purchasing	60.5	51.4%	76.6	59.0%
Retail	15.6	13.2%	20.1	15.5%
Other Financial Services	6.9	5.9%	4.6	3.5%
Total Revenues	**117.7**		**129.7**	

The two companies have a very similar Business mix

Comparison with H&T Group

PLEDGE BOOK SIZE

As of December 2012 (In millions)

	Albemarle & Bond	Margins	**H&T Group**	Margins
Pledge book size	£38.1		£51.6	
Revenue	£113.9		£129.7	
Gross profit	£66.2	58%	£62.3	48%
Operating Profit	£19.0	17%	£18.1	14%
Net Income	£12.9	11%	£12.9	10%

- We notice that H&T Group has a bigger Pledge book size
- However, Gross margins and Operating margins are better for Albemarle & Bond suggesting better cost management

Albemarle & Bond
HOLDINGS PLC

Comparison with H&T Group

STORE COUNT

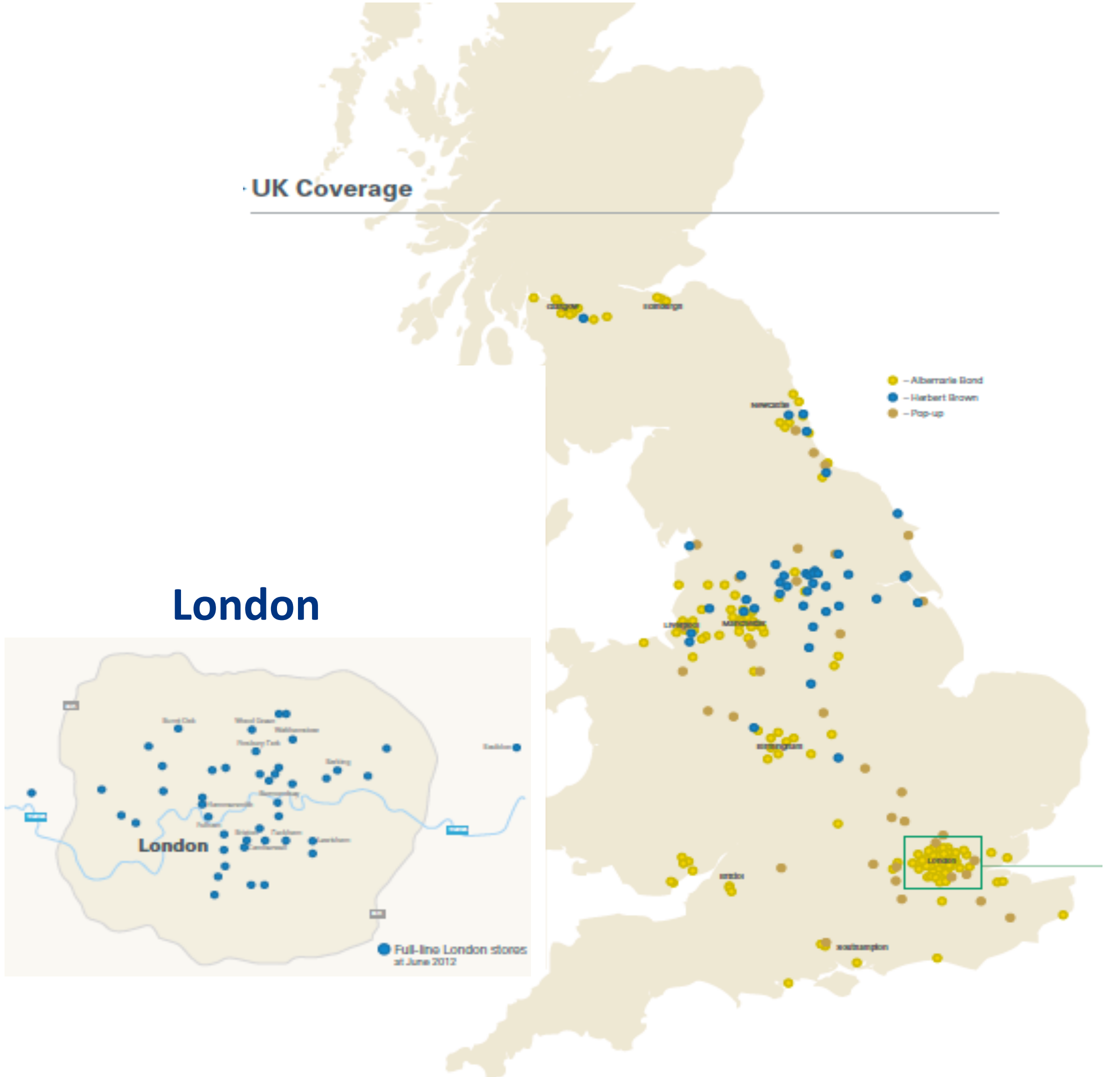
Albemarle & Bond Holdings

- 234 stores

H&T Group

- 210 stores

- Albemarle & Bond has higher store count
- Better economies of scope available from offering the three main products pawnbroking, gold buying, and retail sales



 May 28, 2013

Recent stock price performance

- April 19, Friday – Company releases a profit warning

  "FY profit materially below current market expectations"

  "Barry Stevenson the CEO will retire sooner than planned, after board decided new leadership is needed"

- Reasons for the profit warning

  - Recent drop in gold price
  - Less jewellery in circulation
  - Increase in competition

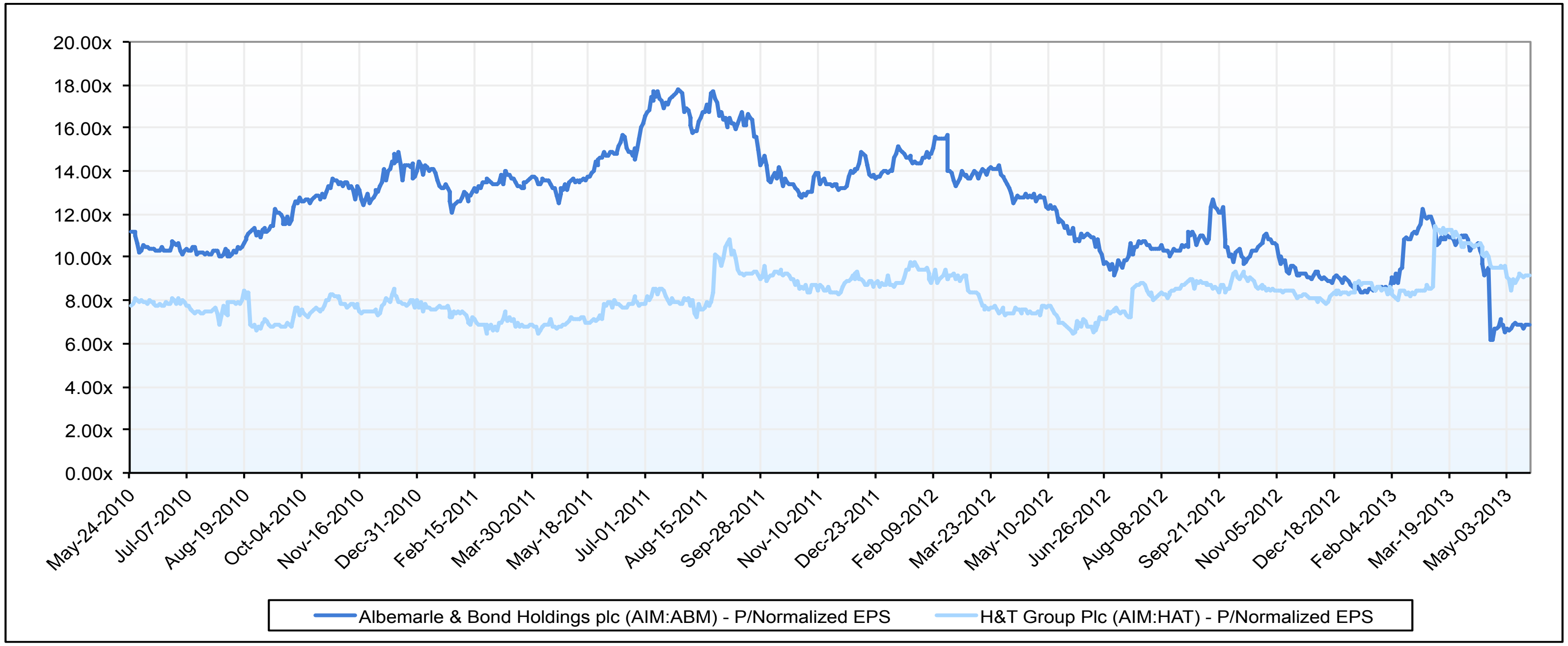
- The City had expected profits of £16million for the year to June 30, 2013 which is 2.1% higher than June 30, 2012 (£15.7million)
- Stock price plunged 35.5% to 120p on the next trading day

Albemarle & Bond
HOLDINGS PLC

Why I think this is an overreaction

Drop in Gold price should affect the industry as a whole

Most comparable competitor H&T Holdings is trading at a higher multiple



Sources: National Pawn Brokers Association (NPA), Office of Fair Trading (OFT)

Why I think this is an overreaction

Overreaction to Leadership uncertainty

- Non-execute chairman Greville Nicholls (former CEO) steps in as interim CEO
- Greville was Chief Executive of Albemarle & Bond from 1995 to August 2009 and oversaw a period of steady profit growth in the business

Sources: National Pawn Brokers Association (NPA), Office of Fair Trading (OFT)

Albemarle & Bond HOLDINGS PLC

Other factors

Insider holdings & buy/sell activity

- Only insider activity => April 2, 2013 - Greville Nicholls sells 13,000 shares
- Previous insider activity => Nov. 21, 2012 - Greville Nicholls sells 15,000 shares
- The interim CEO, Greville Nicholls holds 538, 360 shares (0.97%)

The company has someone at the helm with vested interest in its share price performance

Sources: National Pawn Brokers Association (NPA), Office of Fair Trading (OFT)

Albemarle & Bond HOLDINGS PLC

Valuation

Company Name	P/E
Albemarle & Bond Holdings	**5.5x**
H&T Group	**7.6x**

Assumptions

- EBIT growth is flat (on average) for the next 3 years
- H&T Group's P/E ratio is also affected to a certain degree by the gold price decline

- Considering these a P/E ratio of 8.0x is reasonable for Albemarle & Bond
- The current EPS (ltm) is £ 0.23
- **We get a share price of £ 1.84 with a 43% upside**

Albemarle & Bond
HOLDINGS PLC

Alternative Strategy: Long / Short

- **Long Albemarle & Bond and Short H&T Group**

Advantage

- Hedge against downside risk due to further drop in gold price

Considerations

- Availability of H&T Group stock for shorting
- Related trading cost

THANK YOU FOR YOUR ATTENTION !

Regulation

Office of Fair Trading

- Regulatory authority for the Consumer credit industry
- Under the Consumer Credit Act, maintain a register of consumer credit license holders

Consumer Finance Association

- The CFA is the principal trade association representing the interests of major short-term lending businesses operating in the UK
- Sets the standards for payday lenders by driving industry improvements and best practice

National Pawnbrokers Association

- Take account of the recent expansion of the pawnbroking industry
- Ensure that its affairs and those of its members were more efficiently regulated
- Protect the public interest, especially given the general environment of self-regulation in the financial services sector

Albemarle & Bond
HOLDINGS PLC

Comparison with H&T Group

	Albemarle & Bond Holdings					H&T Group				
	2012	2011	2010	2009	5 Yr. Avg.	2012	2011	2010	2009	5 Yr. Avg.
ROE ➡	20.7%	23.3%	21.8%	22.3%	22.5%	15.7%	26.1%	31.6%	29.4%	25.4%
ROIC ➡	22.6%	25.9%	31.6%	25.7%	25.2%	26.7%	26.5%	38.1%	28.8%	22.4%
EBIT margin ➡	19.2%	21.3%	25.2%	29.2%	24.2%	13.9%	19.6%	22.7%	25.0%	21.3%
Capital Expenditure ➡	£5.3m	£7.0m	£4.2m	£1.8m	£4.0m	£4.5m	£4.5m	£4.0m	£4.0m	£4.0m
Long term Debt ➡	£44.1m	£34.9m	£24.3m	£30.6m	£34.1m	-	£34.0m	£31.0m	£44.1m	£31.7m

- Very similar in most aspects
- Albemarle & Bond has a slightly higher ROIC

Pawnbroking vs. Payday loans

PAYDAY LOANS

- No collateral => Riskier
- Only available for the employed people
- Consumers tend to shop around to get the best price
- Lending periods are shorter than pawnbroking; usually one month
- Higher APR

PAWNBROKING

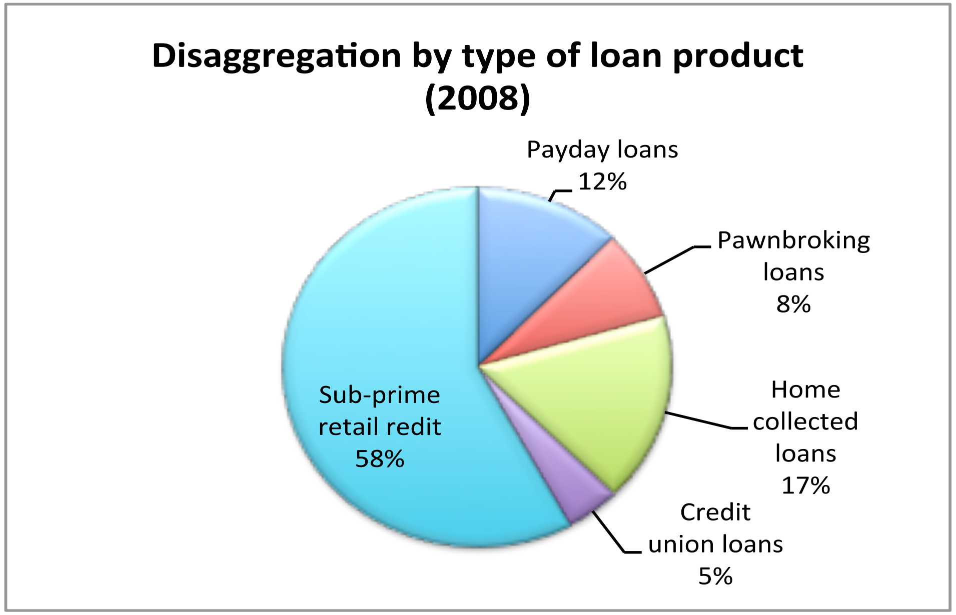
- Jewellery Collateral => Riskier
- Only available for the employed people
- Consumers tend to go to shops they trust or have a better relationship

  Brand recognition is important for lenders
- Lending periods are generally longer 6~7months

Industry: Pawnbroking

- Falls under the broad category of Consumer Credit
- Value of loans made in 2008 by high-cost credit suppliers ~ **£ 7.5 billion**

UK CONSUMER CREDIT MARKET STRUCTURE



(In millions)

Payday loans	£900
Pawnbroking loans	£600
Home collected loans	£1,260
Credit union loans	£340
Sub-prime retail redit	£4,250

END

LBS IMC Stock Pitch Competition – Summer 2013
Tarun Doss – MIFFT2013

Summary

- Recommend **BUY** on Paperlinx Step-up Preference Shares (PXUPA.AU)

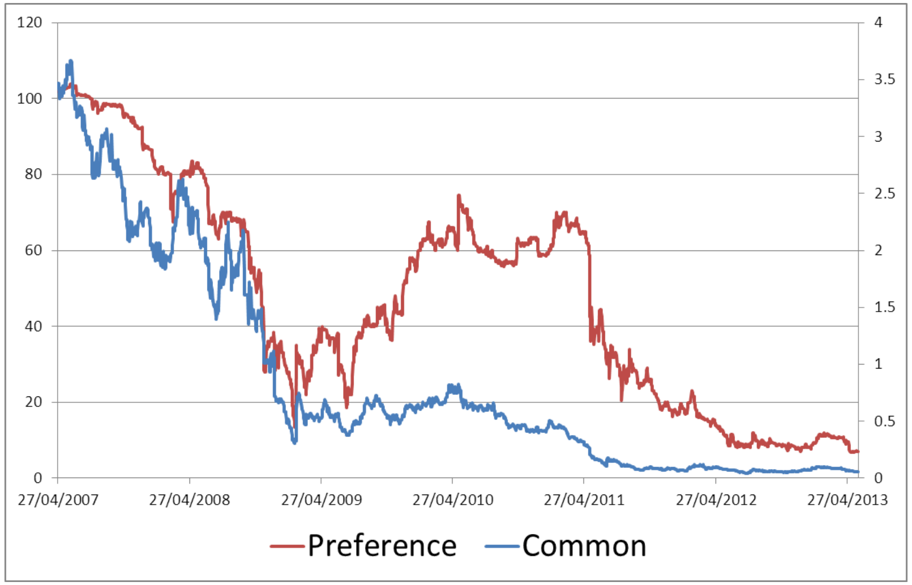
- Current market price of **$7** versus intrinsic value range of **$12-21**

- Market valuation implies extraordinarily pessimistic outcome for preference shareholders

- Mis-pricing is the result of terrible market sentiment and lack of understanding of the nature of both PPX's business and the security itself

Company Background

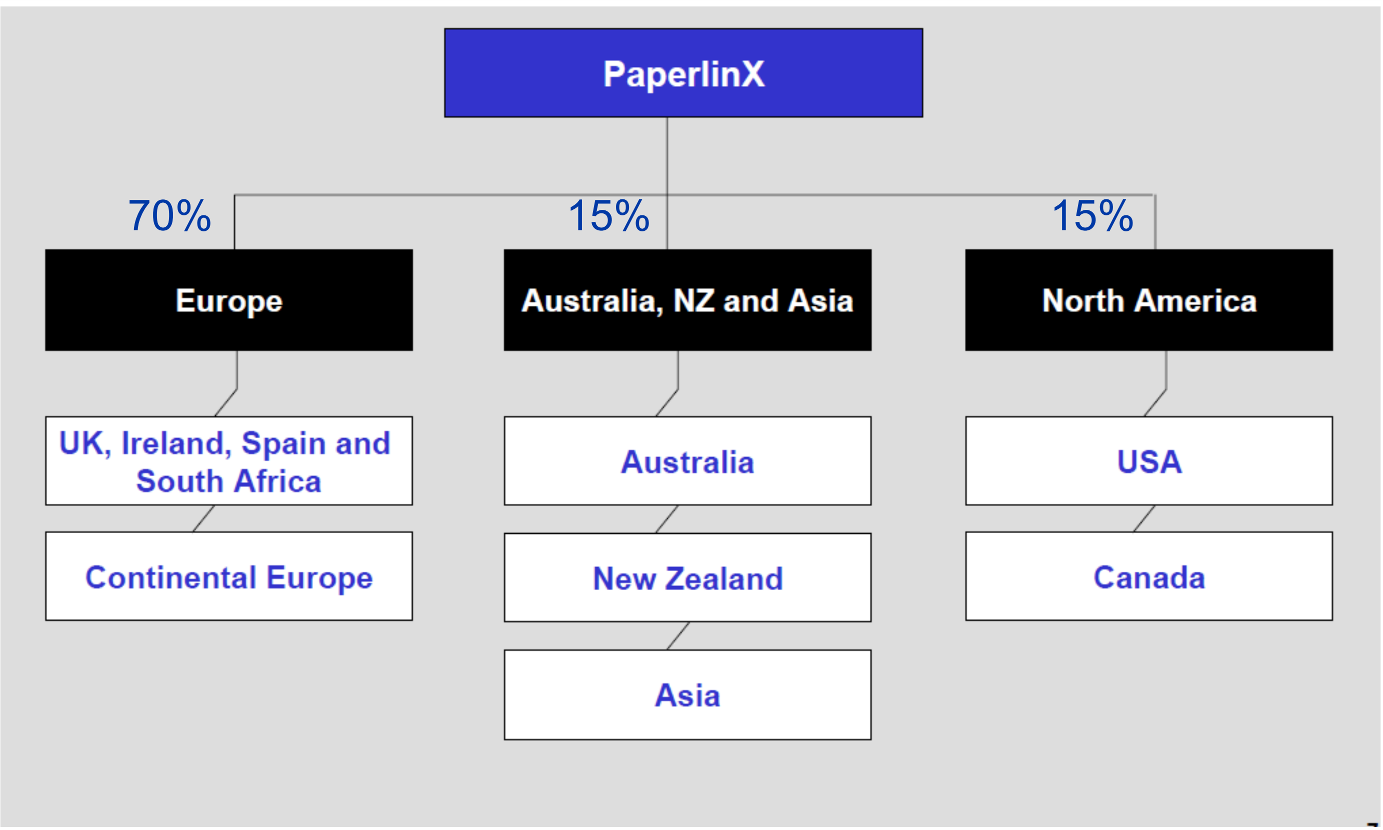
- Paperlinx conceived through demerger of packaging giant, Amcor's (AMC.AU) paper assets in 2000
- Company went on an acquisition spree with goal of being world's first global paper merchant
- Now a *pure* paper merchant/distributor following divestment of mill operations in 2010
- Company has been loss-making since 2009



Summary Financials (PPX.AU)	
Stock Price	$ 0.06
Shares Outstanding (MM)	609.3
Market Capitalization (MM)	35.3
Net Debt (LTM MM)	138.6
Enterprise Value (MM)	450.44
EBIT (LTM) (MM)	-64.9
EV/EBIT	N/M
EPS (LTM)	-0.3
P/E	N/M
P/Tangible Book^	N/M

Additional Info for PXUPA.AU	
Face Value	$ 100.00
Stock Price	$ 7.00
Shares Outstanding (MM)	2.765
Market Capitalization (MM)	19.36
P/Tangible Book (*)	0.21

The Company Today



Brands

Spicers

BührmannUbbens

Robert Horne Group

Howard Smith Paper Group

OSPAP

PaperNet

Security Background

- Paperlinx issued $276.5mn of Step-up Preference Shares in order to de-lever debt position
- Initial margin of 2.4% over Australian 180-day BBSW. Stepped up further 2.25% on re-marketing debt of 30^{th} June 2012
- Security is perpetual (no scheduled maturity date)
- Distributions are non-cumulative in nature and completely at management discretion.
- PXUPA holders only protected by dividend stopper
- Management have not paid distribution since 2011 and banks wont allow another payment until AT LEAST 2014

Why does the market hate Paperlinx?

Industry in secular decline

Bad Management

Geography

However, turnaround is a possibility

Misunderstood business model

- Paper Merchant/Distributor – Low risk/return business model
- Asset base almost entirely working capital assets (receivables/inventories)

Opportunity to expand margins in Europe

- Main competitor in Europe, Antalis, generates >3% EBIT margins
- Paperlinx's Australasian and Canadian operations generate >2% EBIT margins

Management interests more aligned with preference shareholders (sort of)

- Activist top 10 common shareholder now running European operations
- Bank involvement ensures that common equity holders cannot 'swing for the fences'

Valuation (1)

Income Approach	
Revenues (85% of annualised Dec 12)	2,448.17
EBIT (2.5% margin)	61.20
Multiple of 5.5x	336.62
Net Debt	138.60
Equity Available to Prefs and Common	198.02
Face Value of Preference Shares	276.50
Valuation of Preference Shares	**$ 71.62**

Balance Sheet Approach			
	Dec-12	**Factor**	**Recovery**
Cash	102.3	100%	102.3
Acc Receivables	603.6	80%	482.88
Income Tax Rec	2.7	0%	0
Inventories	309.2	80%	247.36
Assets HFS	4.4	0%	0
Current Assets	1022.2		832.54
Non-current Assets			0
Total Assets	1185.6		832.54
Total Liabilities	811.2		811.2
Total Equity	**374.4**		**21.34**
Valuation of Preference Shares			**$ 7.72**

Valuation (2)

- Binary situation assumed – in 3 years, either company stabilizes at modest profit and preference shares worth $70 or goes bankrupt with zero recovery

- I assign a 30-50% probability that management can successfully achieve a turnaround

- Assuming a 20% discount rate, the above probabilities derive an intrinsic value of **between $12-21** per share

- Current market-implied probability of success is only 16%

Potential Risks

- Secular trends
- Market position
- Working capital position
- Management exploitation
- Default

Conclusion

- Not for the faint-hearted
- Compelling risk-reward situation
- Market is overly pessimistic on the company and the security features
- Excellent opportunity limited to those with small capital to invest

Agenda

Judges' final decision

And the winner is…

Thanks for participating!

Next Stock Pitch Competition

Autumn 2013

Please join us in the S1 Lounge
to celebrate