

## East 72 Holdings

### Focused on deep value, long term investments

East 72 Holdings (E72) is a listed investment company (LIC) focussed on investing in both long and short exposures in Australian and non-Australian equities. E72 has a deep value, long term investment horizon. The company was originally listed on the NSX as Australian Premier Finance Holdings but underwent a recapitalisation and name change to East 72 in April 2016. At that time the existing 58.26m shares were consolidated on a 350 for 1 basis and the company raised \$0.45m through a share placement to executive director Andrew Brown and sophisticated investors at \$0.35/share. East 72 has subsequently raised another \$3.78m through a series of placements, the latest on 14 August 2018 at a price of \$0.30/share. The LIC is trading at a small premium to its post-tax NTA of \$0.284/share for September 2018.

### Business model

E72 is an internally managed listed investment company. It operates a long-short portfolio of Australian and non-Australian equities through shares and derivative instruments, typically assessing securities over a two to three year time horizon with a view to catalysts and potential growth beyond that period. In September 2017 and following approval from shareholders, E72 acquired Stiletto Investments from a group of shareholder including related interests of executive director Andrew Brown. The business was purchased for \$2.061m, with \$2.037m of the purchase price in E72 shares, and brought, at the time of acquisition a listed share portfolio worth \$2.38m and derivatives valued at \$0.55m. At June 30, E72 had \$6.429m invested in listed Australian and international shares across approximately 50 stocks; \$2.34m in 17 equity derivatives and \$4.486m in short exposures to 15 Australian and international shares and indices. Its biggest short exposure at June 30 was to the US S&P500 index.

### FY18 result and outlook

E72 reported revenues of \$2.065m for FY18 up from \$0.47m in FY17 due in large part to the profit from the sale of derivative instruments (\$1.37m), a net gain of \$0.36m from the sale of equity investments and higher dividends received. The change in fair value in equity investments retained was largely unchanged. E72 reported a net loss of \$0.664m for the year, versus net profit after tax of \$0.197m in FY17, mostly attributable to losses on the sale of derivatives and a reduction in the fair value of derivatives retained. Stiletto contributed revenue of \$0.29m and a loss before tax of \$0.067m in FY18. Executive director Andrew Brown noted in the company's annual report that E72 was hoping to see a measured pullback in equity prices across the globe, but particularly in the US and Australia. At 30 September 2018, unaudited post-tax NTA/share was \$0.284, and the company also carries \$0.02 per share in franking credits. E72's first quarter FY19 performance was impacted by a negative return in July and August (down respectively 4.1% and 6.8%) before retracing +0.7% in September. The portfolio had 52 long exposures and 20 short exposures to equities at September 30.

### Earnings history (A\$m)

Year ended	Revenue	EBITDA	NPAT	EPS (c)	NTA (A\$m)	NTA per share (\$)	Shares on issue (m)
Jun-16	0.01	(0.11)	(0.11)	(30.9)	\$0.46	\$0.32	1.45
Jun-17	0.47	0.32	0.20	4.8	\$3.17	\$0.35	9.06
Jun-18	2.07	(0.71)	(0.66)	(4.8)	\$5.09	\$0.30	16.87

Source: Company data

### Shares Summary

Share Code	E72
Share Price	\$0.30
Market Capitalisation	\$5.745M
Number of Shares	19.15M
Net Debt at 30 June 18	\$1.74M
Share Registry	Boardroom Ltd

### Business Description

E72 is a LIC with a five-year-plus time horizon and a mandate to invest in global equities. Its current portfolio has a technology bias (28% of the portfolio).

### Upside Case

- Demonstrated outperformance from investing in global markets
- Acquisition of private businesses generates free cash flow to reallocate to best opportunities
- Investment manager has a track record of outperformance

### Downside Case

- Performance risk like all fund managers.
- Little liquidity, no shares traded in FY18
- Financial results are not a good indicator of performance, NTA is the metric to follow

### Board of Directors

Non-Executive Chairman	Wayne Adsett
Executive Director	Andrew Brown
Non-Executive Director	Richard Ochojski

### Catalysts

- Delivering on long/short exposures

### Comparative Companies

ABW, CQG, KGI.NSX, SVS, WAA, WGB

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## FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

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AFSL 456663

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