Mittleman Brothers
Investment Management

Mittleman Global Value Equity Fund – Class P

Quarterly Report – Q3 2021

Commentary[1]

The Mittleman Global Value Equity Fund (MGVEF) declined-8.1% in Q3 2021, vs. an increase of +2.8% in the MSCI ACW Net Total Return Index.

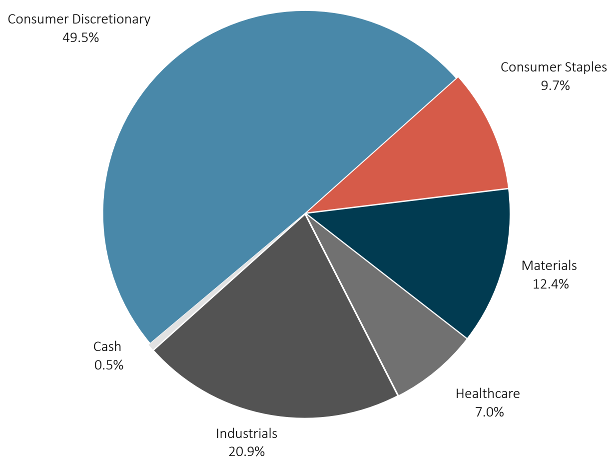
The top three contributors to Q3 2021 performance were International Game Technology (IGT): $23.96 to $26.32 (+9.8%), Newmark Group (NMRK): $12.01 to $14.31 (+19.2%), and TV Azteca (AZTECACP MM): US$0.03 to US$0.04 (+26.6%).

The three most impactful detractors from Q3 2021 performance were AMA Group (AMA AU): US$0.43 to US$0.32 (-23.4%), Revlon (REV): US$12.84 to US$10.11 (-21.3%) and Aimia (AIM CN): US$3.93 to US$3.41 (-13.2%).

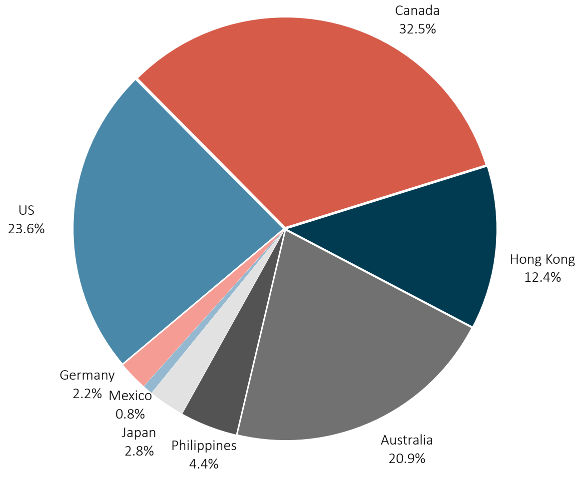
Fund details	
Index	MSCI All Country World Index (ACWI) Net Total Return in AUD
Fund inception date	13 June 2017
Class P inception date	13 October 2017

Performance[2] – 30 September 2021			
	MGVEF (Class P)	Index (AUD)	Excess return
1 month	4.7%	(3.0%)	7.7%
3 months	(8.1%)	2.8%	(10.9%)
1 year	53.6%	26.4%	27.1%
2 years p.a.	7.3%	14.6%	(7.3%)
3 years p.a.	(1.1%)	12.6%	(13.7%)
Since inception[3]	3.6%	14.2%	(10.6%)

Sector allocation[5]



Country allocation[4]



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2. Performance figures are presented in AUD on a net, pre-tax basis and assume the reinvestment of distributions. Past performance is not an indicator of future performance. Figures in the table may not sum correctly due to rounding.
3. Since inception returns are annualised and calculated from 13 October 2017. Past performance does not guarantee future results.
4. Portfolio holdings, country allocation and sector allocation of MGVEF are as of 30 September 2021 and are subject to change and should not be considered as investment recommendations to trade individual securities. Country allocation does not include cash.

Top 10 holdings[5]

As at 30 September 2021		
Stock	Country	Weight
Aimia	Canada	21.8%
AMA Group	Australia	20.9%
Greatview Aseptic Packaging	Hong Kong	12.4%
International Game Tech	US	11.9%
Cineplex	Canada	10.7%
Revlon	US	9.7%
ABS-CBN Holdings Corp	Philippines	4.4%
CMIC Holdings Co Ltd	Japan	2.8%
Bayer	Germany	2.2%
Viatris	US	2.0%

Portfolio statistics[6]

As at 30 September 2021		
	MGVEF	Index
Weighted avg market cap	US$2,510m	US$22,092m
Median market cap	US$495m	US$6,471m
EV/EBITDA	6.6x	13.9x
Price/FCF	10.4x	19.0x
Free cash flow yield	9.6%	5.3%
Number of securities	11	2,979

Quarterly investment review[7]

For the second consecutive quarter, **International Game Technology** was the top contributor to MGVEF performance. The stock has advanced 55.4% year to date through 30 September 2021. IGT's lottery business, which now represents about 80% of the company's EBITDA, proved its resilience through the pandemic and continues to see strong growth. The slot machine business has also stabilised and sports gambling provides a tailwind of a large secular growth story that is under-appreciated with IGT. Their "PlaySports" technology is the backbone of 50 U.S. sports betting operations in 17 states, including the retail and mobile sportsbook for Resort World Las Vegas. As well, they are behind the scenes on many other high profile operators. MIM has increased its estimate of IGT's fair value to $38 per share (previously $29), which applies the same targeted EV/EBITDA multiple of 9x on a slightly higher estimate of 2022 EBITDA at $1.6B, and market cap to FCF multiple of 14x estimated $550M in FCF for 2022. MIM believes this estimate is conservative, as IGT's closest peer, Scientific Games' (SGMS) lottery business, is set to IPO this week in Australia at 14x EBITDA (https://www.ggrasia.com/sci-games-nears-us3bln-lotteries-ipo-in-australia-report/). Applying a similar multiple to IGT's lottery EBITDA (80% of total) would boost the value of IGT's stock to about $69 per share.

Newmark, a top commercial real estate brokerage firm, entered the portfolio in Q4 2020 when its stock was languishing on fear of a pandemic-induced nuclear winter in office leasing. Most investors missed the less obvious components of Newmark's value such as its capital markets, investment sales, and mortgage businesses, and a stake in NASDAQ shares (NDAQ), which mitigated that risk substantially. Fast forward to August 2021 when Newmark reported its best-ever Q2 revenues and earnings. MIM's average cost was ~$7.72/share (avg. across all separately managed accounts) and exited the position at the end of Q3 when the stock price was nearing its $15 estimate of intrinsic value. MIM's fair value estimate is conservative and the stock continues to look appealing, but MIM redeployed the proceeds into other holdings where it believes there to be more attractive risk/reward ratios.

TV Azteca, albeit a bright spot in Q3 2021, is still one of the worst investments that MIM has ever made on a total return basis since entering the portfolio and has been a steady source of tax loss sales over the past decade of MIM's ownership. That said, its stock price has tripled off the 2020 low, and the business itself has been resilient, continuing to generate significant FCF, maintaining a 36% market share in Mexico's free OTA (Over The Air) TV market while fending off a new entrant. TV Azteca suffered nonetheless because Mexico's GDP in real terms barely grew over the past decade, and TV ad sales are GDP sensitive. Competition from Netflix and challenges to linear TV in general was also a factor. Also, the Mexican Peso which MIM thought was cheap 10 years ago at 13.14 declined to 20.71 now, which is a 37% drop in value vs. the USD. Part of that was due to a generally declining price of oil during that period (until recently) because oil production is still a big factor for Mexico's economy. With oil price rising and supply chains shortening (the trend towards near-shoring benefits Mexico at China's expense), maybe the worm has finally turned for Mexico and for TV Azteca with a current market cap. of only USD 120M against free cash flow averaging USD 60M per year in each of the last three years (including 2020). Thus MIM still owns a small position.

In a world where filmed entertainment content is so valuable, it's hard to imagine that the 2nd largest producer of Spanish language television content in the world is not worth more than 2x FCF, and 4x EBITDA where TV Azteca sits today at quarter-end price of MXN 0.84 (USD 0.04). Applying just a 7x EBITDA multiple to trailing 12 months EBITDA of USD 139M = USD 973M minus USD 506M in net debt = USD 467M = USD 0.16 per share which is about 4x the current price, and still less than 8x FCF of USD 60M.

In addition, MIM thinks they have another $150M ($0.05 per share) in estimated value for other assets: (i) 33% ownership of Grupo Orlegi (in exchange for Liga MX football team Atlas of Guadalajara, bought for $50M in November 2013, so guessing this stake is worth $50M today); (ii) a 40% stake in Azteca Comunicaciones Colombia est. worth $40M; and (iii) 100% ownership of a new fiber-optic network in Peru called Azteca Comunicaciones Peru (aka Red Dorsal)

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est. worth $60M (net of $238M in debt). And they own another soccer team which MIM doesn't attempt to value. These ancillary assets are important to note as TV Azteca has raised cash from overlooked assets before. In 2017 the company received $165M by selling its broadcast license and spectrum in TV stations owned in L.A. (KAZA-TV) and San Francisco (KEMO-TV), and in 2018 they sold the Azteca America network for $30M. That was $195M in cash raised from assets that were cash-flow break-even at best. That cash went to renew their broadcasting concession for another 20 years after the current one expires on 31 December 2021; a payment to the government of $200M made in Q4 2018.

The controlling shareholder, Mexican billionaire Ricardo Salinas, is a notoriously bad guy. And his 85% stake in TV Azteca is only worth USD 100M, which is little to him given his 75% stake in Mexican retailer Grupo Elektra is worth over USD 13B. The corporate governance weakness is a major risk, which keeps the position in MIM's portfolio very small, but the 4x to 5x upside potential from the current price makes some ongoing exposure seem warranted.

This headline from a story in Bloomberg Businessweek says it all "Mexico Stock Market Is So Dead That Buyouts Are the Only Action" (Click link for the article) so it's probably a good time, from a contrarian/valuation perspective, to be looking for buys down there.

TV Azteca is the 2nd largest television broadcaster in Mexico, with an estimated 25% audience share, but a 36% market share of TV ad sales. From 2007 to 2021, TV Azteca's market share has grown from 29% to 36%, while Televisa's has dropped from 71% to 64%. And it has matched, or outperformed Televisa in terms of TV ad sales growth for 5.5 years in a row through 2021.

In reviewing their Q2 2021 presentation (Click link), it should become clear that despite an almost negligible stock price, there is a substantial business here with nearly 30 years of track record, a real example of a durable franchise.

MIM added significantly to its position in **AMA Group**, the largest auto collision repair company in Australia and New Zealand, on weakness over the course of the third quarter, including via subscription to the company's attractively priced (A$0.375/US$0.2725) entitlement offer in September for MIM client accounts that were eligible to participate. MIM was initially surprised by the size of the capital raise (A$150 million) since the company's net debt to EBITDA was just 2.7x, which is very reasonable by U.S. standards and well below AMA's global peers. For example, Blackstone's privately held Service King (Midas) carries around 10x net debt to EBITDA and Hellman & Friedman's privately owned Caliber Collision is at 9x, so while those entities clearly might need some deleveraging, MIM thought AMA at 2.7x was fine, but apparently banks in Australia are much less tolerant of debt than in the U.S. AMA will use the net proceeds from the raise to pay down debt facilities and for the purposes of working capital, improving liquidity (including for COVID-19 related disruption, which MIM estimates will be about A$60M in cash burn during the lockdown over the last 6 months of 2021, at A$10M per month), and in supporting the business's growth initiatives.

The new cash will also fund an inventory buildup of auto parts as AMA transitions from buying parts via distributors to buying direct, where a lot of margin is to be saved on the roughly A$350M in parts buying AMA does annually on normalised sales of A$1B and what MIM thinks should be normalised EBITDA of A$100M. The very successful Boyd Group in Canada operates that way (buying parts direct). This would complete the integration of the various acquisitions done to create AMA Group, which are now doing their parts buying via 178 different shops. This is an inefficiency that the new CEO wants to fix. They lay out the case in their presentation for the recent capital raise: Click link

MIM really likes the risk/reward ratio that AMA's shares present at the current price, evidenced by the large position size it now occupies in MGVEF. This is not only because it represents one of the few remaining re-opening trades that has yet to be fully exploited, but also because of an ongoing opportunity to further consolidate their highly fragmented industry, which MIM thinks can be done on highly accretive terms. New technologies are making car crashes less frequent, a headwind for the collision repair industry that is largely offset by an increase in cost per repair due to the more complex nature of the work. Whereas a low-severity accident might have required only a pounding out of a dent before, now it will often require a recalibration of the sensors and cameras that are increasingly found in cars on the road today. Many small operators are not willing to invest in the extra equipment necessary to handle these new demands, and demographically speaking they are generally run by older people with adult children not interested in taking over the business, so there should be a good supply of smaller independent shops for sale at highly accretive multiples. In a business where scale matters, AMA controls roughly 14% of an A$7B market, and is 15x the size of its next largest competitor.

As of the most recent ownership filing on 7 October, MIM was the largest AMA shareholder with 11.6% ownership of the company. MIM believes fair value to be A$0.78 (US$0.56) at 10x normalised EBITDA of A$100M (pre-AASB 16), a 10% EBITDA margin on A$1B in normalised (post COVID) sales, implying over 75% upside potential from the quarter-end price of A$0.445/US$0.32).

MIM thinks its target valuation multiple of 10x EBITDA is reasonable given that in 2018 Blackstone had agreed to buy AMA Group (when it was a much smaller entity) for 10.7x (that deal later was scuttled by an adverse tax ruling) https://www.repairerdrivennews.com/2018/04/24/blackstone-to-buy-australias-no-1-collision-repairer-ama-group-for-386-39m/ and Boyd Group (BYD CN, C$235) in Canada and the U.S. trades at 14x EBITDA (est. 2022).

As noted in the August fund update, MIM believes that **Revlon's** stock is worth in the mid-$20s and that it's likely to attain that price level through a sale of the company in part (Elizabeth Arden, Almay, or American Crew divisions, for example) or in whole, fulfilling the Goldman Sachs-led sales process that began nearly two years ago. While that process may sound like it is taking an extraordinary amount of time, the sale of Procter & Gamble's CoverGirl, Max Factor, and other brands to Coty in 2016 (for 2.6x sales) took a year and a half from the engagement of Goldman Sachs to the announcement of the deal, and there was no global pandemic to delay matters then. MIM believes that a productive outcome in Revlon is apparent in the not too distant future.

Aimia's share price declined in Q3 despite news releases that MIM viewed favourably over the three month period. Aimia invested C$44 million (US$35 million) as the lead investor of the most recent funding round for TRADE X (www.tradexport.com), an innovative solutions provider to the global pre-owned car industry through its B2B cross-border auto trading platform at a pre-money valuation of C$314 million (US$250 million). The investment represents a 12.3% equity stake for Aimia in TRADE X. The company has been growing fast as they expand their market reach via acquisitions (one such example: Click link) and to other countries. TRADE X simplifies the very complex process of cross border used car sales, mainly between dealerships straddling the U.S./Canada border right now, and in doing so should actually expand what is already a very large addressable market to more mid-west and southern states in the U.S. and in other countries like Mexico and Nigeria, even as the price of used cars subsides eventually as demand normalises.

As expected, the privatisation of Clear Media was completed following the acquisition of all the remaining shares of Clear Media Limited on 27 September 2021 by the consortium of investors (which includes the Clear Media CEO, Ant Group and JCDecaux) through their special purpose vehicle. As a result, Aimia now owns a 10.85% stake in the private entity.

Shortly after the end of the third quarter on 4 October, Aimia issued the following press release: Aimia Confirms Discussions with AeroMexico Regarding Potential PLM Transaction. Aimia's stock price has risen since then.

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Investment strategy

Mittleman Investment Management, LLC (MIM) is an SEC-registered investment advisor based in New York that pursues superior returns through long-term investments in what it deems to be severely undervalued securities, while maintaining its focus on limiting risk. It invests in businesses that it believes are proven franchises with durable economic advantages, evidenced by a well-established track record of substantial free cash flow generation over complete business cycles, and only when the very low valuation at which the investment is made provides a significant margin of safety. MIM's value-oriented strategy is to invest in a concentrated portfolio (usually between 15 to 20 securities) of primarily common stocks, unrestricted as to market capitalisation, and in both developed and emerging markets.

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