Mittleman Brothers
Investment Management

Mittleman Global Value Equity Fund – Class P

Quarterly Report – Q4 2021

Commentary[1]

The Mittleman Global Value Equity Fund (MGVEF) advanced 3.9% in Q4 2021, vs. an increase of 6.0% in the MSCI ACW Net Total Return Index.

The top three contributors to Q4 2021 performance were Aimia Inc. (AIM CN): US$3.41 to US$3.91 (+14.7%), Revlon Inc. (REV): $10.11 to $11.34 (+12.2%), and International Game Tech. (IGT): $26.32 to $28.91 (+10.6% w/ divd).

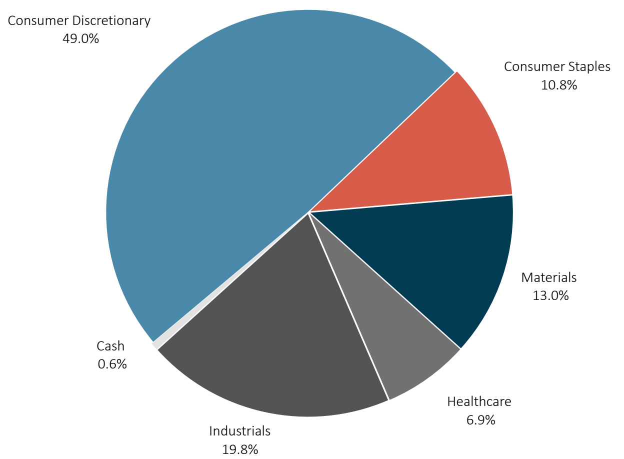
The three most impactful detractors from Q4 2021 performance were AMA Group (AMA AU): US$0.32 to US$0.31 (-2.5%), ABS-CBN Holdings Corp. PDR (ABSP PM): US$0.26 to US$0.23 (-11.7%), and Greatview Aseptic Packaging (468 HK): US$0.372 to US$0.366 [-1.9%].

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

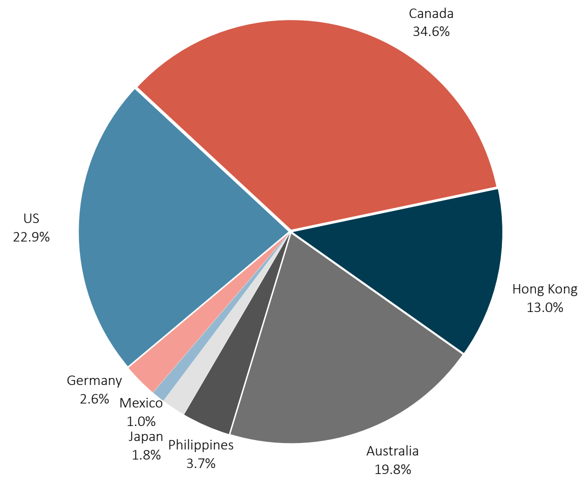
Performance[2] – 31 December 2021

	MGVEF (Class P)	Index (AUD)	Excess return
1 month	4.8%	1.4%	3.4%
3 months	3.9%	6.0%	(2.1%)
1 year	26.9%	25.8%	1.1%
2 years p.a.	8.9%	15.4%	(6.5%)
3 years p.a.	4.9%	19.1%	(14.2%)
Since inception[3]	4.4%	14.9%	(10.5%)

Sector allocation[4]



Country allocation[4]



1. The securities herein identified and described do not represent all of the securities purchased, sold or recommended for MGVEF. The reader should not assume that an investment in the securities identified was or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved. All dollar amounts within this report are in USD unless otherwise stated.
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 31 December 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 31 December 2021		
Stock	Country	Weight
Aimia	Canada	24.0%
AMA Group	Australia	19.8%
Greatview Aseptic Packaging	Hong Kong	13.0%
Revlon	US	10.8%
Cineplex	Canada	10.6%
International Game Tech	US	9.7%
ABS-CBN Holdings Corp	Philippines	3.7%
Bayer	Germany	2.6%
Viatris	US	2.4%
CMIC Holdings Co Ltd	Japan	1.8%

Quarterly investment review[7]

The global value-oriented investment discipline to which MIM has adhered since its inception in 2003 seems to be creeping back into favour in fits and starts, and it is nice to feel a bit of a tailwind starting to kick in. Value investing seems to be regaining some fans as interest rates rise along with inflation, factors that have often been associated with value strategies outperforming. MIM expects that the return to outperformance for its style of global value investing, which began in November 2020 with its best month of performance ever (+42.9%, USD), is still in the early innings.

Aimia continues to make progress on its strategy to invest in public and private companies to yield superior returns for its shareholders. In Q4 2021, Aimia's share price was up 14.3% and for the year it was up 19.9% (all on a CAD basis). Since MIM's first purchases of Aimia's shares in late May 2017 much has changed, and those changes have yielded significant benefits to all of Aimia's shareholders. While MIM are insiders now and cannot comment much anymore on the stock, suffice it to say that it believes significant value remains to be realised at Aimia, from both the market valuation getting closer to fair value as confidence grows in its performance, and from the fair value rising in the businesses in which Aimia has invested as they grow in value over time. In October 2021, Aimia confirmed it was in discussions with Aeromexico regarding a potential PLM transaction which, if successfully consummated, would deliver substantial proceeds to the company. In December 2021, Aimia announced an additional investment of C$31.6 million in TRADE X, a global B2B cross-border automotive trading platform. Trade X is growing at a remarkable rate as they expand their market reach via acquisitions and grow their trading platform to other countries. Aimia remains a very large position for MIM, however the concentration risk is mitigated by the diversity of assets inside of Aimia and its net cash balance sheet. For more about Aimia please see their website: https://www.aimia.com/about-us/

Portfolio statistics[6]

As at 31 December 2021		
	MGVEF	Index
Weighted avg market cap	US$2,717m	US$23,683m
Median market cap	US$495m	US$6,675m
EV/EBITDA	6.9x	13.8x
Price/FCF	11.0x	19.6x
Free cash flow yield	9.1%	5.1%
Number of securities	11	2,966

Revlon, while creeping up enough to make it the 2nd best performer last quarter, was still essentially wallowing around the $10 level where it began the quarter, despite a brief run-up to $17.65 in early November on seemingly speculative activity (the meme stock/Reddit mob have taken a liking to Revlon's illiquid shares and periodically toy with it). The company remains over-leveraged although it has been making progress on improving sales and margins and thus deleveraging.

MIM started buying Revlon at around $10 in December 2010 and enjoyed a nice run over the first five years, a period during which the business performed well. MIM sold some shares at around $40 in 2015 (only about 20% of MIM's position, thinking the stock was worth $60+ then), but 2015 marked the last year in which it exhibited what MIM considers normal economics for this business (65% gross margin, 20% EBITDA margin, 3% maintenance cap-ex). So while it has been six years since that interim peak in business performance and stock price, and some hugely disappointing and abnormal results in the interim period, MIM thinks the quality of the business remains largely intact, with Q3 2021 results creeping back towards normal economics (58% gross margin, 17% EBITDA margin). ,A sale of part or all of the company also remains a good possibility. MIM sees Revlon as worth $27, 2.4x its year-end price of $11.34, at 14x EBITDA of $350M for 2022.

There are a number of examples of high quality consumer brand businesses with multi-decade track records of endurance going through prolonged periods of underperformance before finding a way to rejuvenate themselves. Of course, not all once great consumer brands regain their former glory, such as Schaefer beer, but MIM thinks Revlon (and its other owned brands, Elizabeth Arden, Almay, and American Crew among others) has the proven multi-decade resilience from which a resurgence can spring. And while Revlon is multi-national (50% of sales from outside the U.S.), the core U.S. market for colour cosmetics is rebounding strongly from the unprecedented drop in 2020.

For the third consecutive quarter, **International Game Technology** was among the top three contributors to portfolio results. The company reinstated a cash dividend and announced its first ever share buyback program in Q4. While both initiatives are modest in

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amount they are a good start given how cheap the shares remain at 7.7x EBITDA and 11x FCF. IGT's lottery business 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 underappreciated 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, and they are behind the scenes on many other high profile operators. MIM increased its estimate of IGT's fair value to $39 during Q4 from $38 per share in Q3 (previously $29), which applies the same targeted EV/EBITDA multiple of 9x on estimate of 2022 EBITDA at $1.6B, and market cap. to FCF multiple of 14x estimated $550M in FCF for 2022, but with slightly lower net debt.

MIM believes its estimate is conservative as IGT's closest peer, Scientific Games' (SGMS) lottery business was recently sold to Brookfield Asset Management for 12x EBITDA ($6B / $500M EBITDA), and does not appear to be a better business than IGT's lottery business (which is 80% of IGT's overall EBITDA). https://www.gamingintelligence.com/finance/manda/146780-scientific-games-to-sell-lottery-business-to-brookfield-business-partners/. Applying the same 12x multiple to IGT's lottery EBITDA would boost the value of IGT's stock to about $55 per share, well above MIM's $39 target and the $29 year-end price.

As for the top three detractors from performance in Q4 2021, **AMA Group**, the largest auto collision repair company in Australia and New Zealand, led the pack but was down only slightly on the COVID variant Omicron weakness (less drivers on the road, less accidents) over the course of Q4. MIM discussed its thesis in the Q3 Investment Review so won't repeat here again, but believes it remains intact. Mobility trends show drivers getting back on the road, and should continue as business starts to return to normal. Type "Australia" into the Apple.com mobility website and you'll see driving is +30% over pre-COVID baseline, which would imply a much faster return to pre-COVID sales for AMA than MIM thinks is currently reflected in consensus estimates. https://covid19.apple.com/mobility.

From AMA Group's year-end price of A$0.43 (USD 0.31), MIM sees upside potential of 79% to its A$0.77 estimate of fair value. A$0.77 = 10x EBITDAaL (pre-AASB 16) (est. for CY2023) of A$100M (10% margin on A$1B sales) = A$1B minus net debt of A$100M (excluding converts) minus A$20M minority interest = A$880M equity / 1,142M shares (fully diluted for converts) = A$0.77 per share Equity value = 17.6x FCF est. of A$50M.

AMA Group's FY 2021 sales of A$920M represents 13% to 15% market share of the industry's total revenues at their estimate of A$6B to A$7B annually. MIM estimates that AMA is 15 times the size (in sales) of its next closest competitor. For perspective, compared to AMA's roughly 14% market share, the top 3 operators in North America (Caliber, Boyd/Gerber/Service King) don't add up to that much in terms of aggregate percentage market share. AMA is a roll-up following the template of Boyd Group Services (BYD CN, C$200), a Canadian firm which has been rolling up that industry in Canada and the U.S., generating a 35% CAGR total return for its shareholders over the past 10 years.

The 2nd biggest detractor from performance in Q4 was **ABS-CBN Holdings Corp. PDR.** MIM's original thesis for ABS CBN was wrong, that is, that a threatened but blatantly political cancellation of the most popular TV broadcaster in the country would prove too unpopular politically to attempt. Unfortunately that is what happened on July 22 2020 when the company's broadcasting franchise was not renewed, wiping out about half of the company's business (the rest being broadband and content production). MIM's alternative view was that the populace would not tolerate being unable to see their favourite shows for very long and would seek to watch them on ABS-CBN's OTT or other offerings, and also that the broadband and content assets would cover on the downside. MIM's current estimate assumes a return to normal operations in 2023, and the stock price should anticipate that well in advance. The next presidential election in the Philippines is on May 9 2022 and Duterte cannot be re-elected. Despite having been wrong about the broadcast franchise renewal, MIM did note that "…even if it were to transpire [the cancellation of the broadcast license], ABS-CBN could run their programming on a competing broadcaster's channels, for a fee of course that would impair profits immensely, but such an outcome is already more than reflected in the share price." That is happening, so they are getting their programming out there with block-time deals on TV-5 and another channel. ABS-CBN is a dominant collection of media properties, with decades of track record. In such a fast-growing country, it should not be trading in the open market for less than 4x normalised EBITDA today, when similar companies in slower growing developed markets trade for around 7x to 10x EBITDA and more. Obviously, the great upside here is dependent on a return to normal. Once the political punishment abates, MIM believes the stock should more than triple from the year-end price of USD 0.23 (PHP 11.92). However even if ABS-CBN never gets back to its normal mode of operating, the broadband and content assets alone more than justify the current price, so MIM thinks it is a great risk/reward ratio.

The company owns a 57.4% interest in privately held cable TV firm, Sky Cable, which has a 47% market share of the Philippines pay-TV segment. They have discussed possibly bringing that public at some point, to fund the rapid expansion to its market-leading broadband business, but now it could serve as a liquidity lifeboat if the broadcast shutdown persists too long. They also have a Netflix-like OTT offering, which is garnering subscribers rapidly in a region where Netflix is doing very well but was not the first mover. ABS-CBN and its close competitor GMA7 dominate local content production, while Netflix provides the Hollywood content. ABS-CBN is controlled by the founding Lopez family, which holds a 55% stake via a family-controlled holding company, Lopez Holdings (LPZ:PM). Harvard graduate Oscar Lopez founded the company in 1956.

The 3rd biggest detractor from performance was **Greatview Aseptic,** one of only two publicly traded pure-plays in the fast growing segment of the packaging industry, aseptic packaging, which is primarily used for milk and non-carbonated soft drinks like juices. The company's 2021 results were severely pressured by higher costs of raw materials and freight/shipping costs. Price increases in Greatview's raw material costs (commodities such as liquid paperboard, polyethylene and aluminum) should be largely passed through into customer pricing going forward and margins should remain in a normal range long-term even if prices remain high. The company has a debt free balance sheet, an 8.7% dividend yield, and MIM believes the stock represents an outstanding risk/reward at an incredibly cheap valuation of less than 5x estimated 2022 EBITDA. On 20 January 2022 news reports that Greatview's largest shareholder, Jardine Matheson (JM:SP) with a 28.2% stake, was considering options. So the company might be in play for a takeover: https://fa.news/articles/jardine_looking_to_sell_28_stake_in_greatview-103713/.

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Investment strategy

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