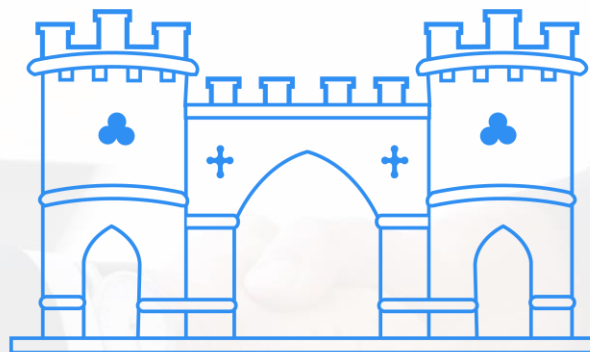




Mark Walker

Managing Partner, Tollymore Investment Partners



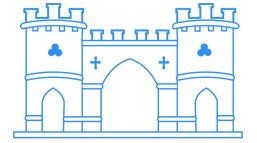


TOLLYMORE

INVESTMENT PARTNERS

Best Ideas 2019, Hosted by MOI Global
January 2019

About Tollymore



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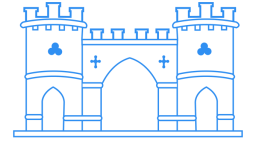
TOLLYMORE INVESTMENT PARTNERS

Tollymore's objective is to compound clients' capital over the long term by investing in a concentrated portfolio of undervalued high-quality businesses. Patience and independent thought are cornerstones of our investment philosophy. Tollymore seeks to improve the lives of investors through exceptional long-term investment returns.

MARK WALKER, ACA, MANAGING PARTNER AND PORTFOLIO MANAGER

Mark Walker is the Managing Partner of Tollymore Investment Partners. Prior to founding Tollymore Mark was a global equity investor for Seven Pillars Capital Management, a long-term global value investing firm based in London. Mark joined Seven Pillars from RWC Partners, where he was part of a two-person team managing a newly launched, long term global equity fund. Prior to that Mark worked as an investment research analyst for Goldman Sachs and Redburn Partners.

Philosophy



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LONG TERM INVESTMENT HORIZON

As long term investors we can exploit the time arbitrage afforded to patient investors with patient capital.

VALUE ORIENTED INVESTMENT APPROACH

We apply a private business owner mentality to listed equity investments and focus on maximising the intrinsic value of the portfolio.

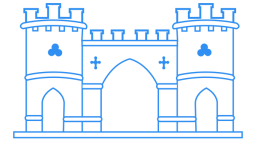
CONCENTRATED PORTFOLIOS

We disagree with conventional wisdom that diversification lowers risk. We are benchmark agnostic; a business owner mind-set is not consistent with taking a market view.

DOWNSIDE PROTECTION

Research efforts are concentrated on finding companies with strong balance sheets, the ability to generate sustained supernormal profits, and which are trading at large discounts to intrinsic value.

Process



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IDEA GENERATION

Ideas are generated through independent study and analysis, intellectual generosity and energetic engagement with likeminded and well-aligned peers. We reject the vast majority of mediocre investment opportunities that cross our path.

RESEARCH

The research process is bottom-up, one company at a time. Blocks of uninterrupted focus are dedicated to understanding a company's economic characteristics and private business value.

PORTFOLIO MANAGEMENT

The portfolio is concentrated, typically holding 10-15 securities. If we successfully identify companies that can increase their own intrinsic values over the long term, holding periods will be many years.

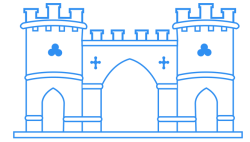
ENVIRONMENT

We have cultivated a focused work environment that we believe is conducive to independent thought and sound investing practice.

COMPETITIVE ADVANTAGE

Behavioural edge is an important competitive advantage. But it requires inaction, solitude, separating oneself from the herd, being inconspicuous, epistemologically humble and patient.

Investment performance



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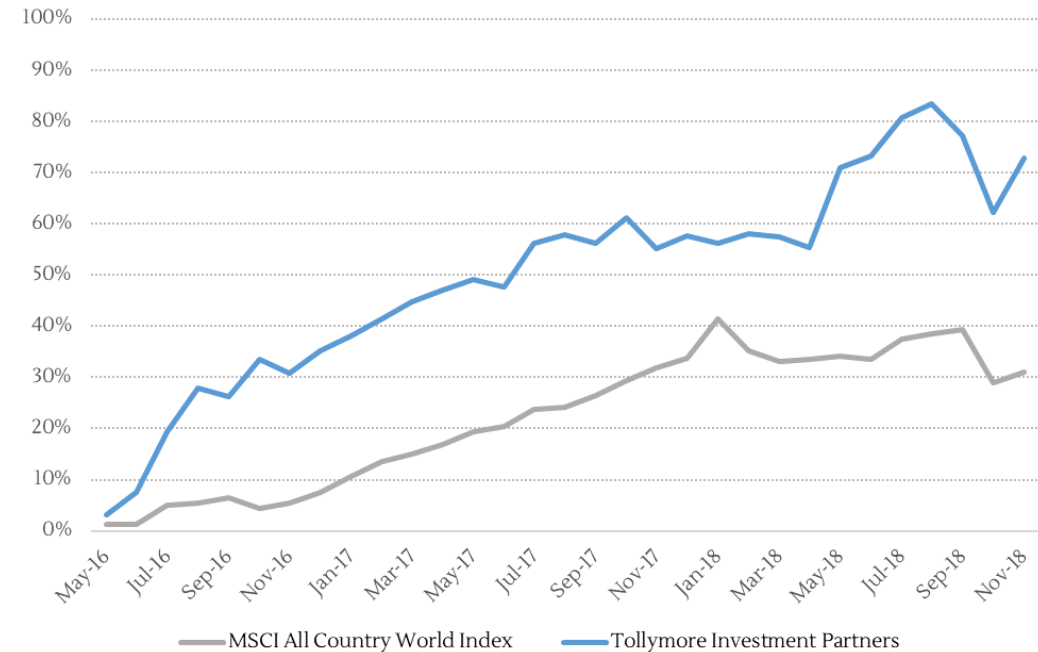
Cumulative	Tollymore Investment Partners	MSCI All Country World Index
Cumulative*	73%	31%
Annualised	24%	11%

Year	Tollymore Investment Partners	MSCI All Country World Index
2016*	35%	8%
2017	17%	24%
2018	10%	-2%

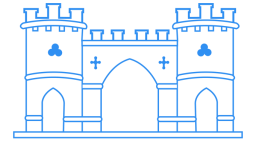
*Since inception on 12 May 2016

Source: Interactive Brokers, managed account performance in GBP, unaudited, gross of fees, as of 30 November 2018. No fees were charged to clients prior to account migration from the fund manager Mark Walker to Tollymore Investment Partners LLP on 15 October 2018.

Tollymore strategy since inception



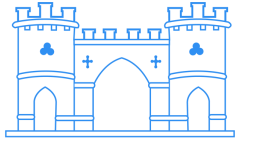
Investment idea



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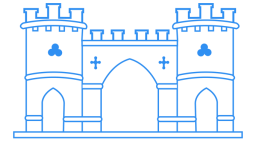
What would you pay for:

- A simple, capital light and founder-led business.
- A provider of an enduring business service with a high utility to cost ratio.
- Average through cycle returns on capital of > 30%.
- Defensible moat thanks to network effects barriers to entry
- Revenue visibility, with two thirds of following year's sales forward booked.
- Conservative capital structure; net debt 1.4x EBITDA
- Strong FCF conversion of earnings due to deferred income balances two thirds of revenues.
- Organic revenue growth of 11%.
- Geographically and industrially diversified end markets.
- UK headquartered and listed business.



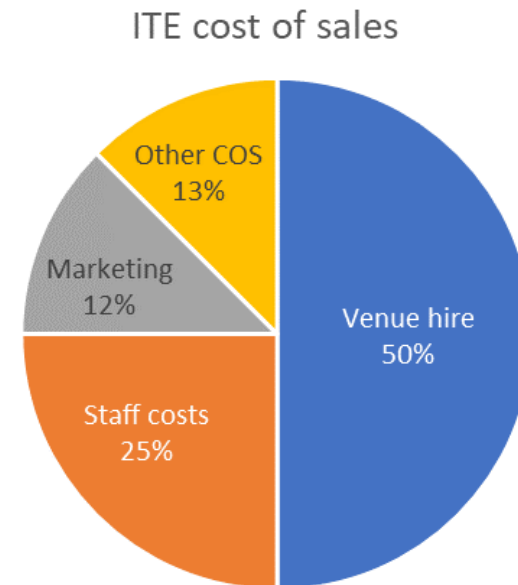
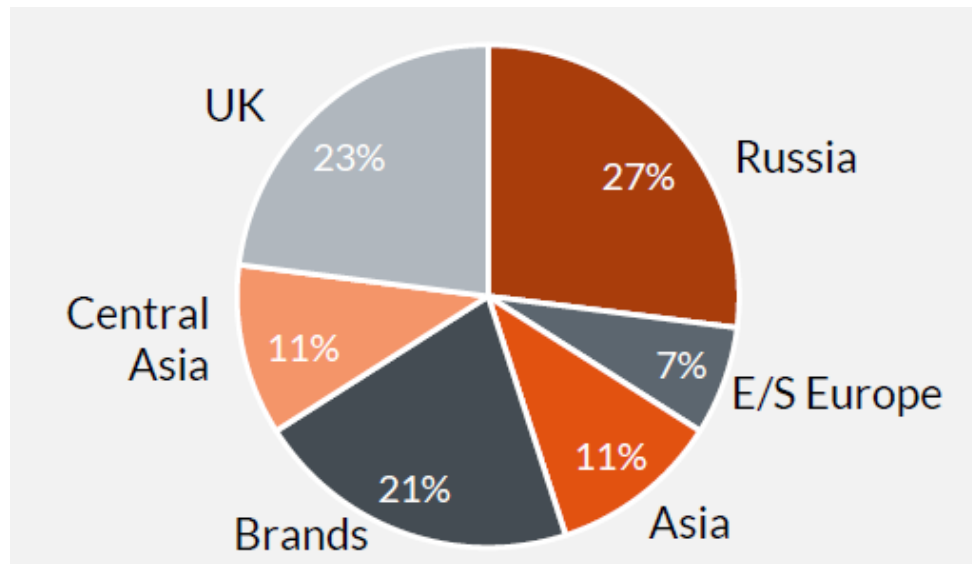
ITE Group plc

Business model

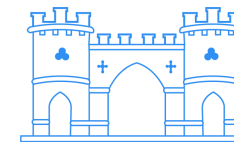


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- Simple business
- Organises exhibitions and conferences
- Multiple sectors and geographies
- Labour intensive, capital light



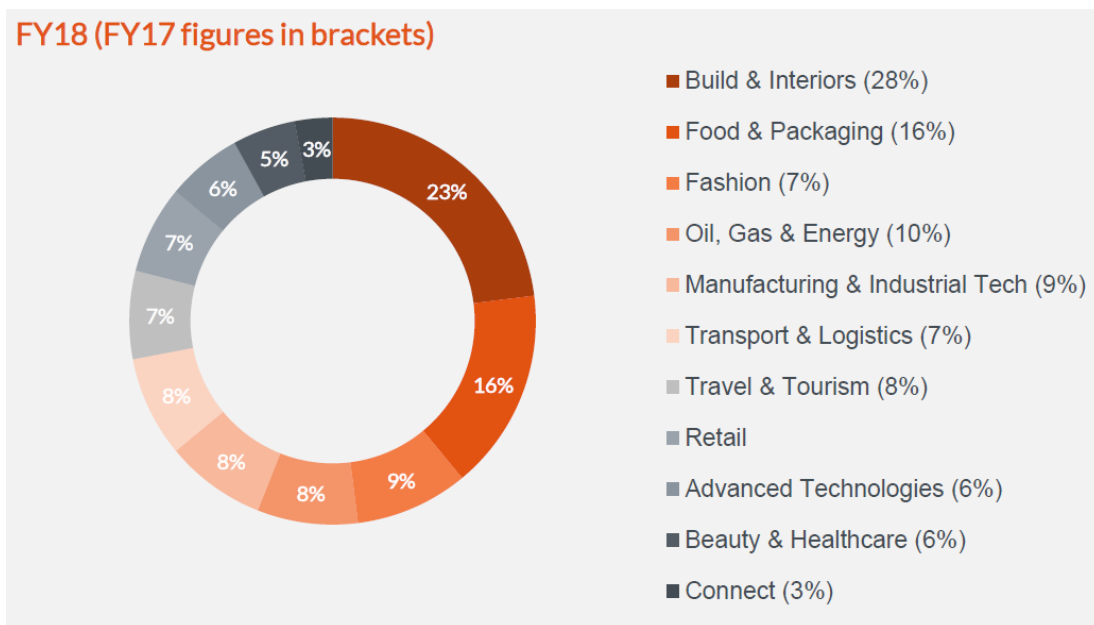
Business model



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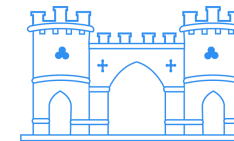
- Cyclical end markets but low operating and financial leverage and a largely variable cost base

FY18 (FY17 figures in brackets)



	Budget	Actual	
❖ Sales	200	140	(30%)
❖ Venue	(50)	(35)	(30%)
❖ Staff	(25)	(20)	(20%)
❖ Marketing	(12.5)	(12.5)	-
❖ On-site consumables	(12.5)	(9.5)	(24%)
❖ Gross Profit	<u>100</u>	<u>63</u>	(37%)

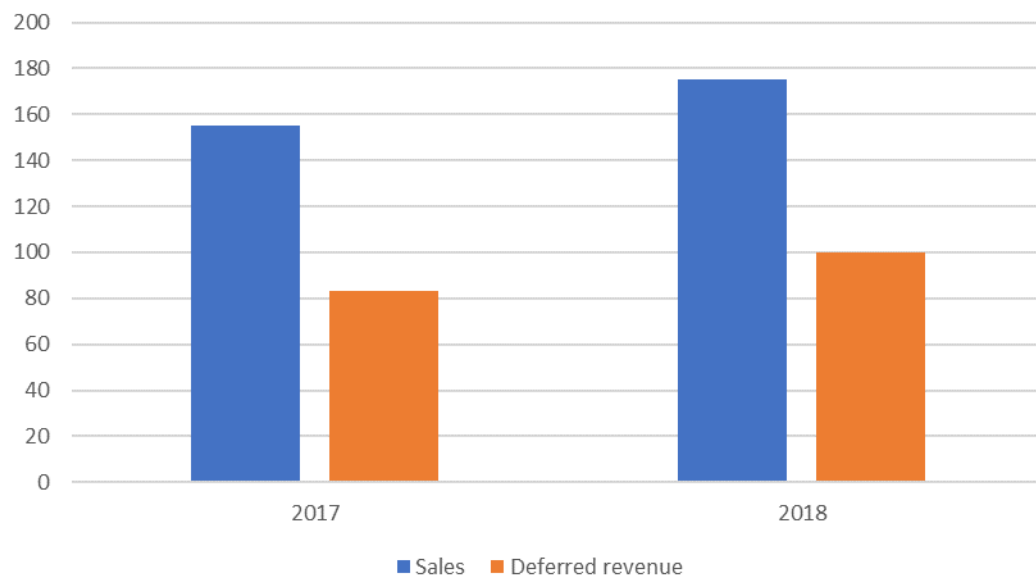
Finances



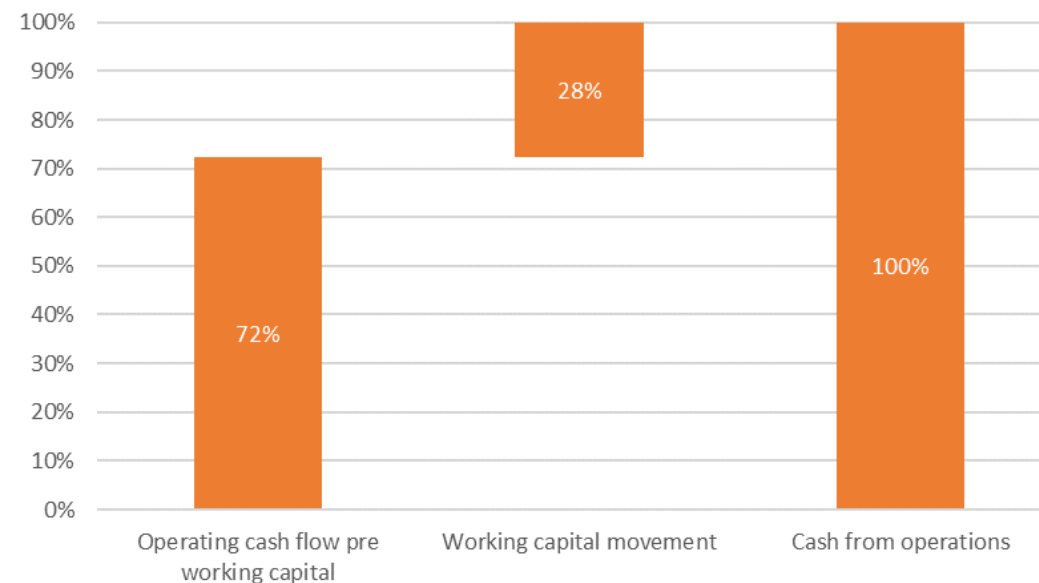
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- Soundly financed business
- Negative working capital
- Net debt 1.4x EBITDA, capex intensity 1-2%

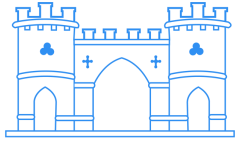
Sales and deferred revenue



Working capital outflow



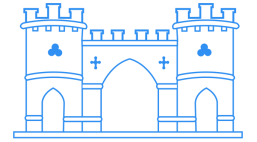
Competitive position



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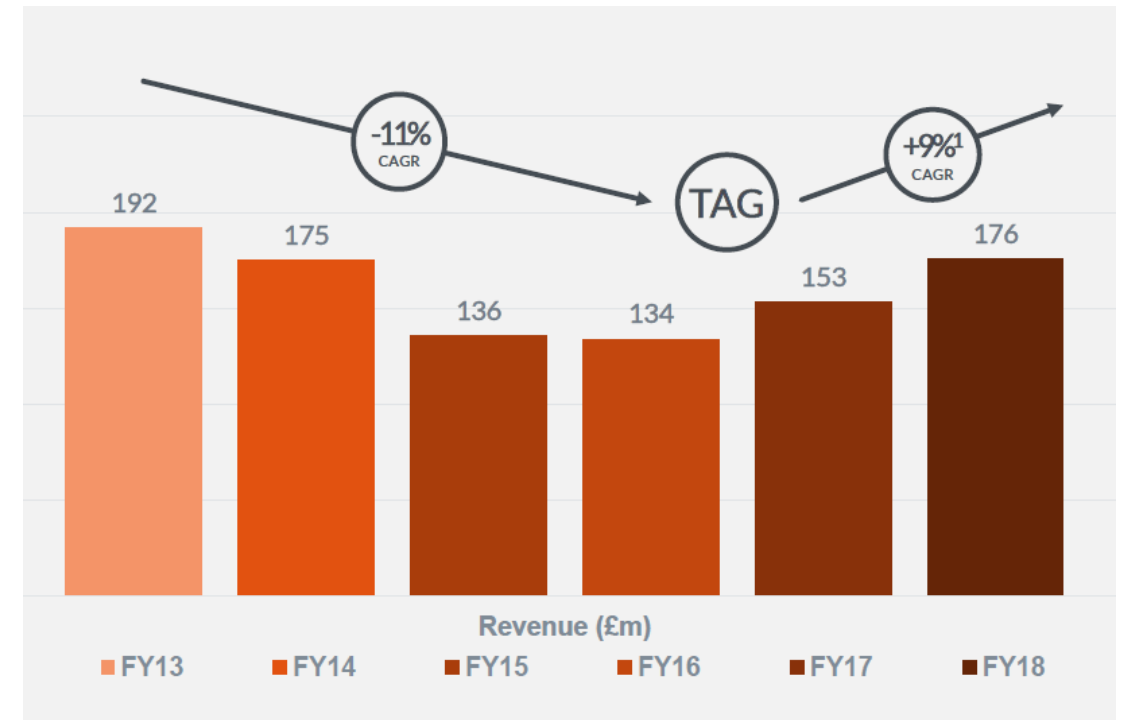
- Moat evidence: Returns on invested capital c. 30-35% over the last 15 years.
- Moat sources:
 - Network effects
 - Intangible assets
 - High value low cost product
 - Venue homogeneity
 - Rational competition
 - Symbiotic value chain. Can you think of another industry in which customers prefer less rather than more choice?

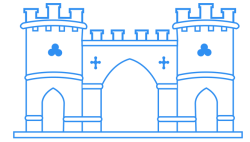
Growth opportunity



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- Limited greenfield capital redeployment
- Market leader in fast growing markets. Yield and volume improvements driving double digit organic growth
- High deferred revenues a coiled spring for FCF growth
- M&A part of management's capital allocation philosophy: recently acquired Ascential Events based on an EV of £300mn, high quality but undermanaged assets





- Founder Mark Shashoua has returned to the business
- Right sizing the portfolio
- Improving organic growth by replicating his i2i Events playbook, where he doubled revenues and profits before selling the business to Ascential
- Improvements to incentive framework. LTIP EPS targets 75% - 290% growth by 2020
- However, not a turnaround thesis...

Scope to improve Ascential financial performance:

1

FY17 revenue growth: Global brands: 9%; Total: 2%
Scope for improvement: 12% and 11% delivered in FY15

2

FY17 cash conversion: 91%
Scope for improvement: 107% delivered in FY15

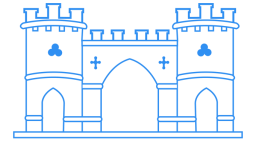
3

FY17 retention rates - e.g. 76% at Bett in FY17
Scope for improvement: 83% delivered in FY15

4

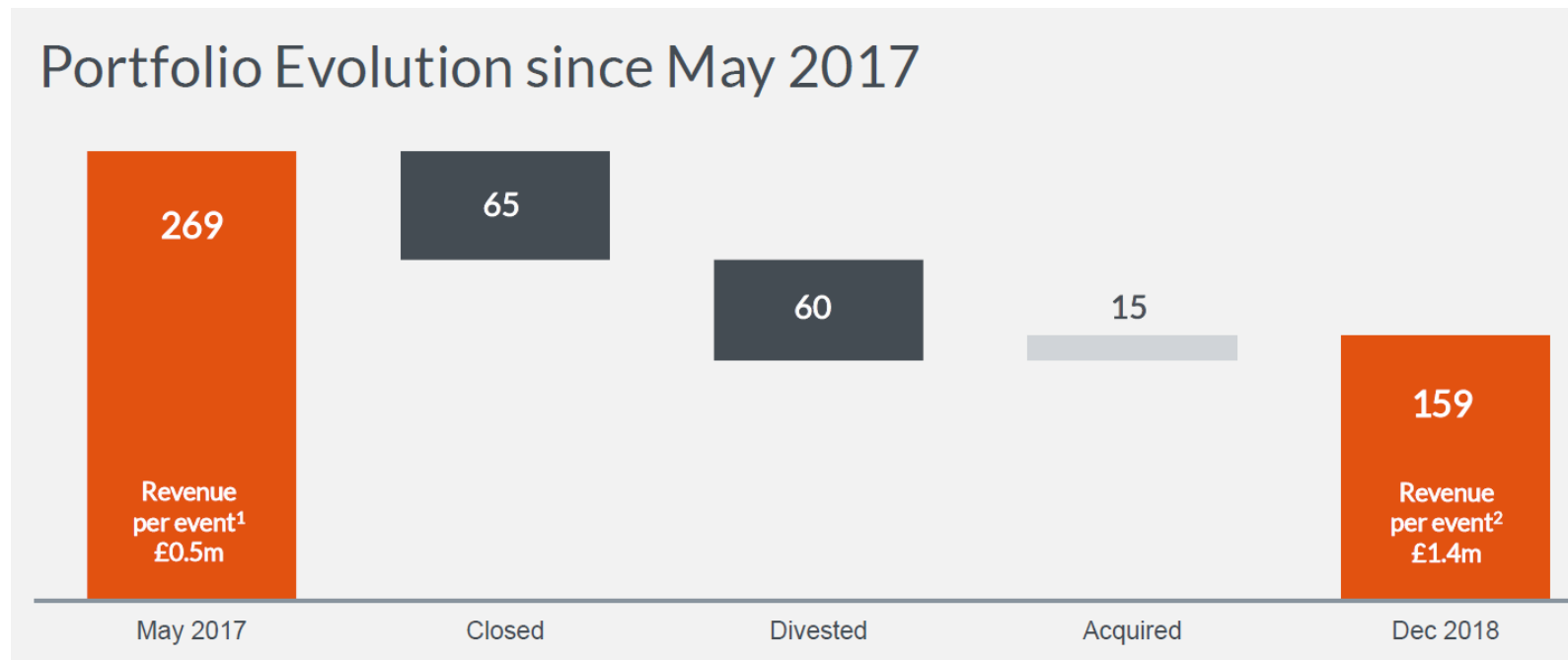
EBITDA margins: 30%+ in every year from 2014, surpassing TAG programme margin targets

Risks

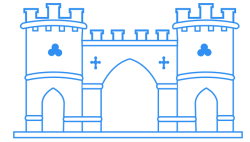


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- Capital allocation/empire building

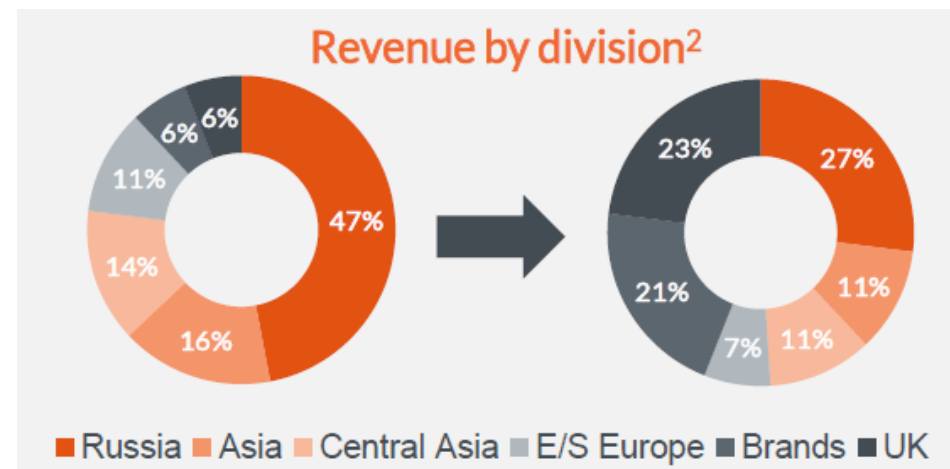


Valuation

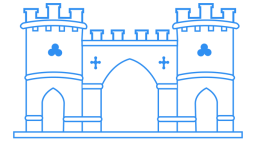


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- Stock price halved 2014 – 2017: Macro and geopolitical shocks impacted end markets
- Stock price halved again in 2018: negative market reaction to rights-issue funded purchase of Ascential assets
- Since the founder returned to the business the stock price has moved in the opposite direction to the company's fundamental business progress
- Drivers of non-fundamental stock selling

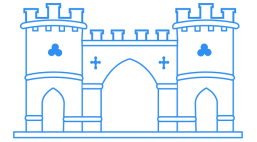


Valuation

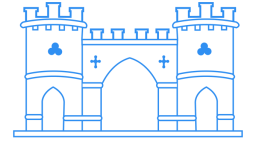


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- Normal trailing LTM FCF = c. £30mn adjusting for:
 - Restructuring costs
 - Biennial events
 - Two months' contribution from Ascential assets
- This is 25% of the company's core equity and debt funding/19% of core revenues (excluding Ascential)
- Organic lfl revenue growth 11%
- Current market cap = £420mn. Excluding a £265mn rights issue to fund Ascential = £155mn
- This implies the core business trades on a normal FCF yield of 19%/a 5.2x multiple
- What is the market's view?

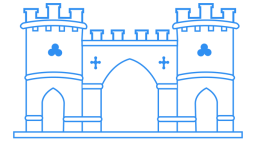


- This implies:
 - Material FCF erosion in the core business, and/or
 - Negative FCF margins in the newly acquired assets, and/or
 - ITE significantly overpaid for the Ascential assets
- BUT:
 - Core business is growing *revenues* double digits and has significant negative working capital, and
 - The acquired assets are more profitable than the core business, and
 - ITE paid 10.5 – 12.5x EV/EBITDA depending on the estimated synergies for a more profitable business, which ITE implies is underearning.



- A conservative private business value £750-800mn, > 100p/share, assuming:
 - ITE's sustainable **FCF** growth is lower than the global industry's **revenue** growth
 - The Ascential acquisition was value neutral
- But management is targeting (and is executing) HSD revenue growth, margin expansion and large working capital inflows; this would result in FCF compounding 1.5x revenue growth

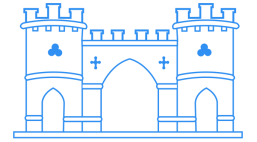
Conclusion



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- Market is not paying attention
- Paying a negative growth multiple for high quality assets
- Empire risk mitigated by:
 - Management incentives
 - Portfolio right-sizing
 - Asset familiarity
- EVA creation potential higher post the deal
- “Very good and very cheap”

Disclaimer



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Mark Walker ACA
Tollymore Investment Partners LLP
www.tollymorepartners.com
mark@tollymorepartners.com