



# Ken Majmudar and Sam Namiri

Ridgewood Investments





Wide-Moat Investing Summit 2018  
Hosted by MOI Global

Ridgewood Investments

973-544-6970

[info@ridgewoodinvestments.com](mailto:info@ridgewoodinvestments.com)

June 27-28, 2018



This presentation is a publication of Ridgewood Investments. Information presented is believed to be factual and up-to-date, but we do not guarantee its accuracy and it should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the authors as of the date of publication and are subject to change.

This presentation is confidential and solely limited for use by MOI Global Members and its 2018 Best Ideas Conference Participants for their own private use. Any member and conference participant may not share the presentation with others without Ridgewood Investments expressed written permission.

Ridgewood Investments is registered as an investment adviser with the SEC and only transacts business in countries and states where it is properly registered, or is excluded or exempted from registration requirements. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability.

Information on this presentation does not involve the rendering of personalized investment advice, but is limited to the dissemination of information for research and discussion purposes. Content should not be construed as an offer to buy or sell, or a solicitation of any offer to buy or sell the securities mentioned herein. This presentation mentions other companies and products as part of the general discussion. We disclaim any responsibility for information, services or products mentioned herein.

All investment strategies and investment ideas have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for an investor's portfolio. There can also be no assurances that any investment will match or outperform any particular benchmark.

As of June 19, 2018, Ridgewood Investments owns a position in BOFI stock in one or more of its accounts or strategies.

# Ridgewood Investments – Presenter Bios



**KAUSHAL “KEN” MAJMUDAR, CFA**  
**PORTFOLIO MANAGER**

- Founded Ridgewood Investments in 2002 and serves as its Chief Investment Officer
- Ridgewood Investments, a SEC registered advisor with over \$200MM in AUM, has continuously managed multiple portfolios grounded in value and dividend growth
- Graduated with honors from the Harvard Law School in 1994
- Honors graduate of Columbia University in 1991 with a bachelor's degree in Computer Science
- Prior to Ridgewood Investments, worked for seven years on as an investment banker at Merrill Lynch and Lehman Brothers
- Noted value investor who has written and spoken extensively on the subject of value investing



**SAM NAMIRI – CO-PORTFOLIO MANAGER AND ANALYST**

- Joined Ridgewood to concentrate on building our Select Value Fund focusing on Small and MicroCap companies.
- Prior to Ridgewood, Sam was an Investment Associate at Grand Slam Asset Management, a small cap value based Hedge Fund.
- Prior to Grand Slam, Sam was Founder and President of Shop Network, a jewelry company involved in television, media, manufacturing, distribution and e-commerce.
- Received his MBA from Columbia Business School in 2012.
- BS in Industrial Engineering and Operations Research from the University of California at Berkeley (2005)

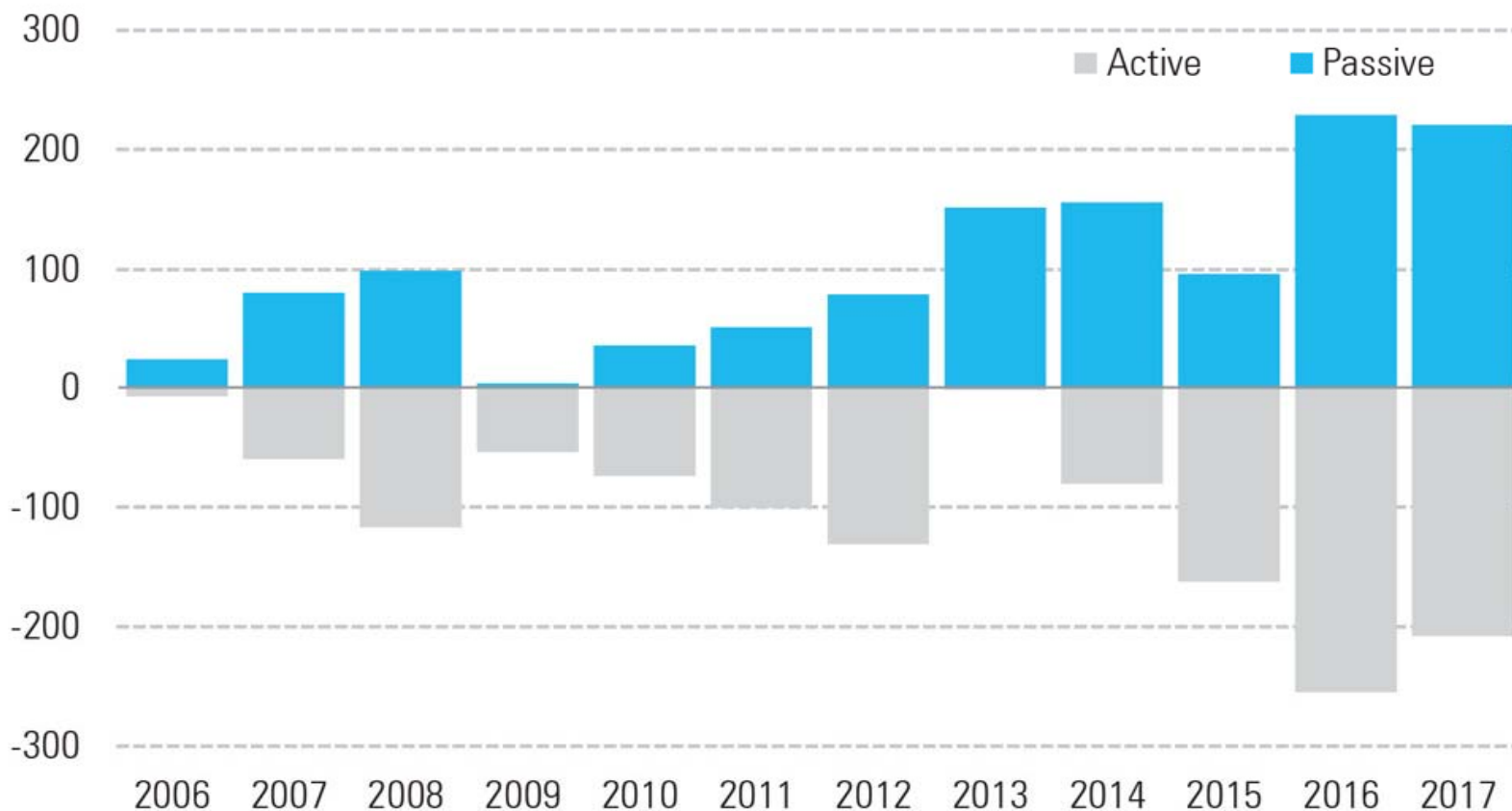
## Ridgewood Select Value Fund

Launched in April 2018

- Focused on Small and MicroCap equities
- Concentrated positions
- Long-term investment horizon
- Private equity approach to public company investing
  - Thinking like an owner
- Thorough due diligence / scuttlebutt
  - Emphasis on company site visits and trade shows
  - Emphasis on management and capital allocation ability

## Indexation – is indexation affecting price discovery?

**Active vs. Passive U.S. Equity Flows (\$ Billion)**



Source: Morningstar Direct Asset Flows



## The Rise of ETFs

- ETFs provide “Automatic Bid” - the greater the passive ownership of a security – the less reactive it is to new information and events
- Less capital in active funds, for active research reduces price discovery
- ETFs emphasize liquidity and “float adjusted market cap” which is counter to the insider ownership trend in selection of holdings
- As long as funds flows increase, it is a self sustaining cycle (reflexivity)
  - What is the limit to these fund flows?
- Opportunities – small caps and microcap funds (especially those excluded from indexation and ETFs)
- Small caps represent less than 10% of total market capitalization and Microcaps less than 1% of total market capitalization but together more than 80% of the companies

## Investment Idea: BofI Holdings, Inc. (Ticker: BOFI)



### BofI Holdings, Inc.

- Ticker: BOFI
- Price: \$42.40 (as of 6/19/2018)
- Market Cap: \$2.652 Billion
- 2 year projected price target of \$63 (53% return)
- Pure play full-service internet banking platform
- Operates mainly from one building in San Diego, CA (no burdensome bank branches)
- Proven low cost business model
- Effective capital allocation to areas with best risk-adjusted returns
- Superior ROA and ROE relative to its competitors

**Disclosure: Ridgewood Investments owns shares of BOFI**



## Background on BofI Holdings, Inc.

### Company History

- IPO'd in 2005 at split-adjusted price of \$2.88 / share
- Price: \$42.40 (as of 6/19/2018)
- CAGR of approximately 23% over the 13 years since IPO
- Compounded its Book Value per Share by 17% per year
- Compounded its EPS by 20% per year
- Oldest remaining pure-play internet bank

### Company Management

#### **CEO Greg Garranbrantz**

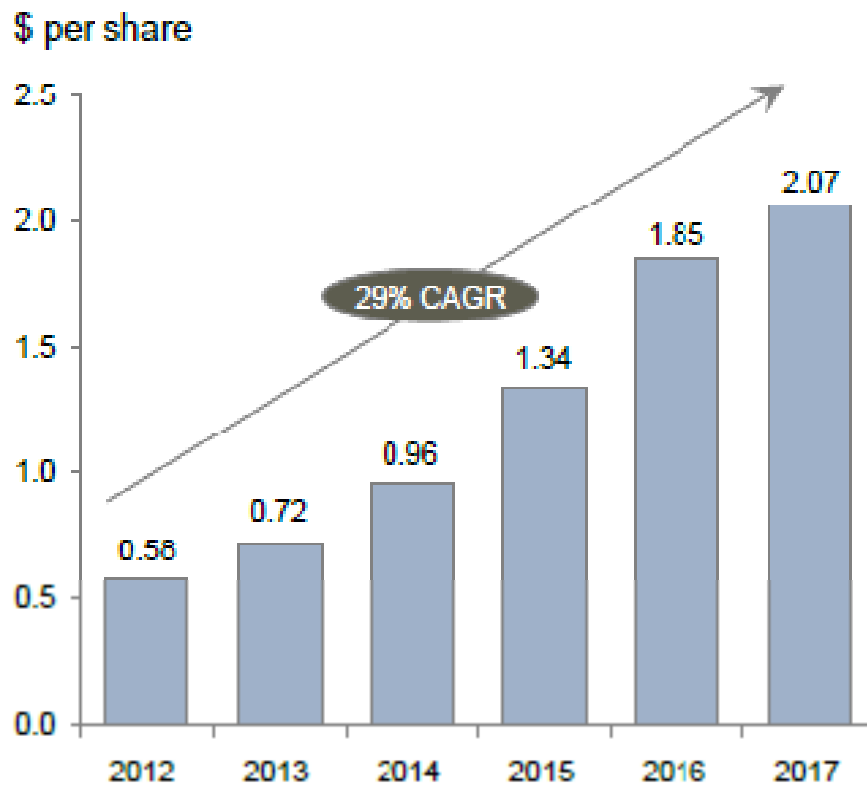
- Became CEO of BofI in 2007
- Was an investment banker at Goldman Sachs
- Management consultant at McKinsey & Co.
- Owns approximately 1.2 million shares of BofI (1.9%)

#### **CFO Andrew Micheletti**

- Joined BofI in 2001
- Owns 500k shares (0.8%)

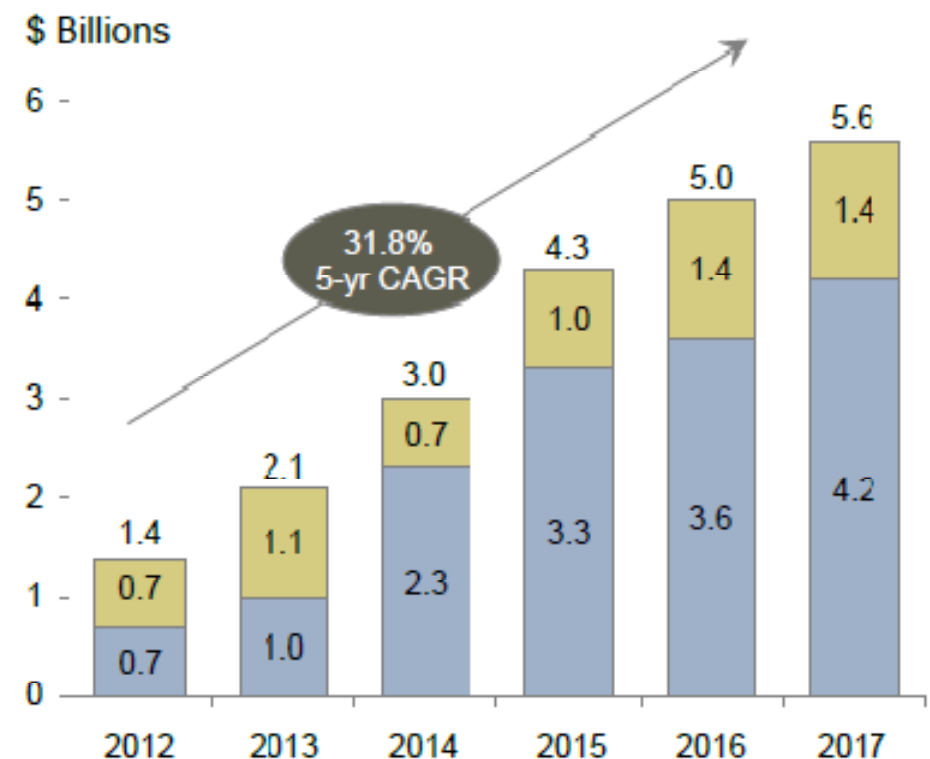
## Background on BofI Holdings, Inc.

**Diluted EPS (FY)**



Book value per share	\$3.95	\$4.79	\$6.33	\$8.51	\$10.73	\$13.05
----------------------	--------	--------	--------	--------	---------	---------

**Fiscal Year Loan Originations**



Annual growth rate	53.2%	42.0%	42.2%	15.6%	11.2%
--------------------	-------	-------	-------	-------	-------

Loans for sale   Loans for investment

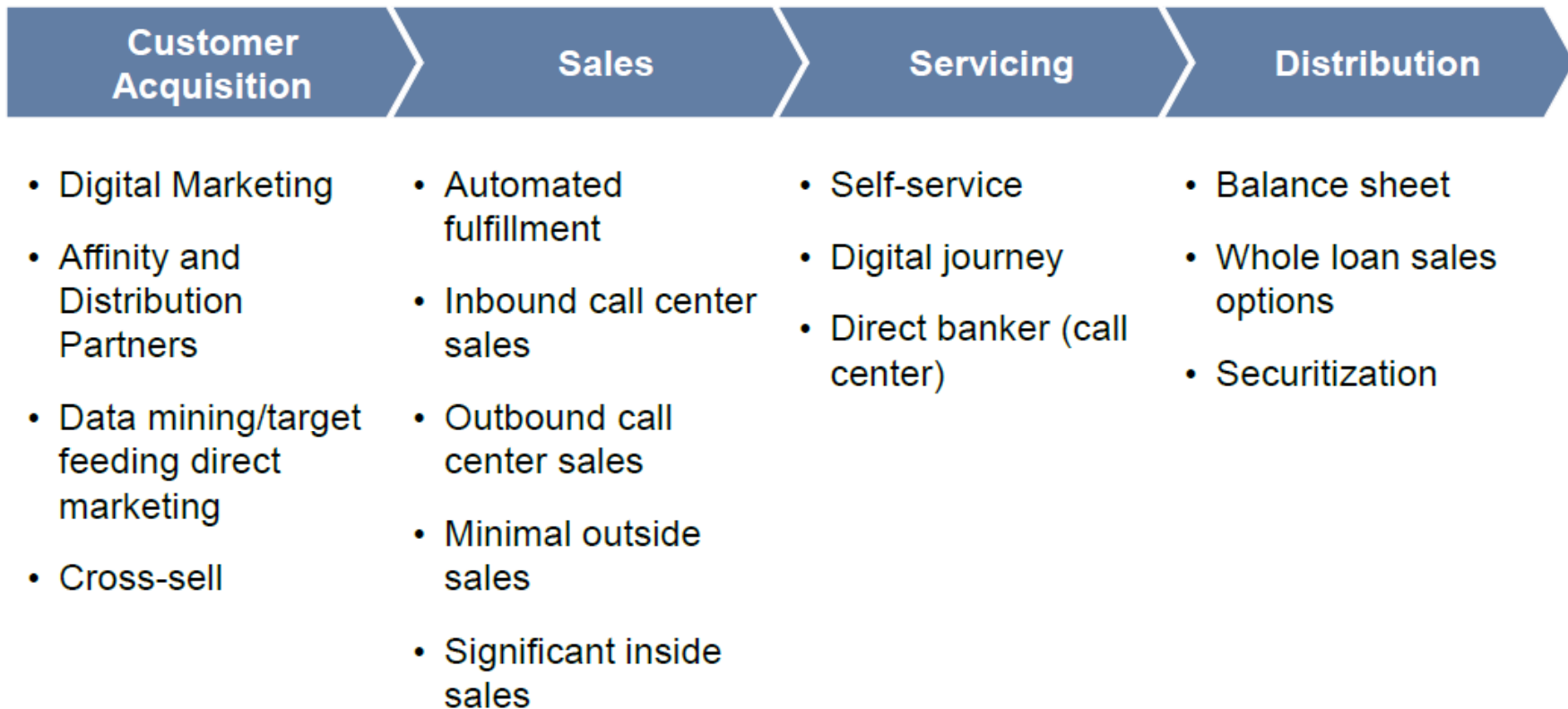
## Background on BofI Holdings, Inc. (Continued)

<b>Branchless Cost Advantage</b> <i>As % of average assets</i>	<b>BofI<sup>1</sup></b> <b>(%)</b>	<b>Banks</b> <b>\$1-\$10bn<sup>2</sup></b> <b>(%)</b>
Net interest income	4.01	3.48
Salaries and benefits	0.90	1.47
Premises and equipment	0.15	0.32
Other non-interest expense	0.59	1.12
<b>Total non-interest expense</b>	<b>1.64</b>	<b>2.91</b>
<b>Core business margin</b>	<b>2.37</b>	<b>0.57</b>

1. For the three months ended 12/31/2017 – the most recent data on FDIC website “Statistics on Depository Institutions Report”  
 BofI Federal Bank only, excludes BofI Holding, Inc. to compare to FDIC data. Data retrieved 4/30/2018.

2. Commercial banks by asset size. FDIC reported for three months ended 12/31/17. Total of 510 institutions \$1-\$10 billion. Data retrieved 4/30/2018.

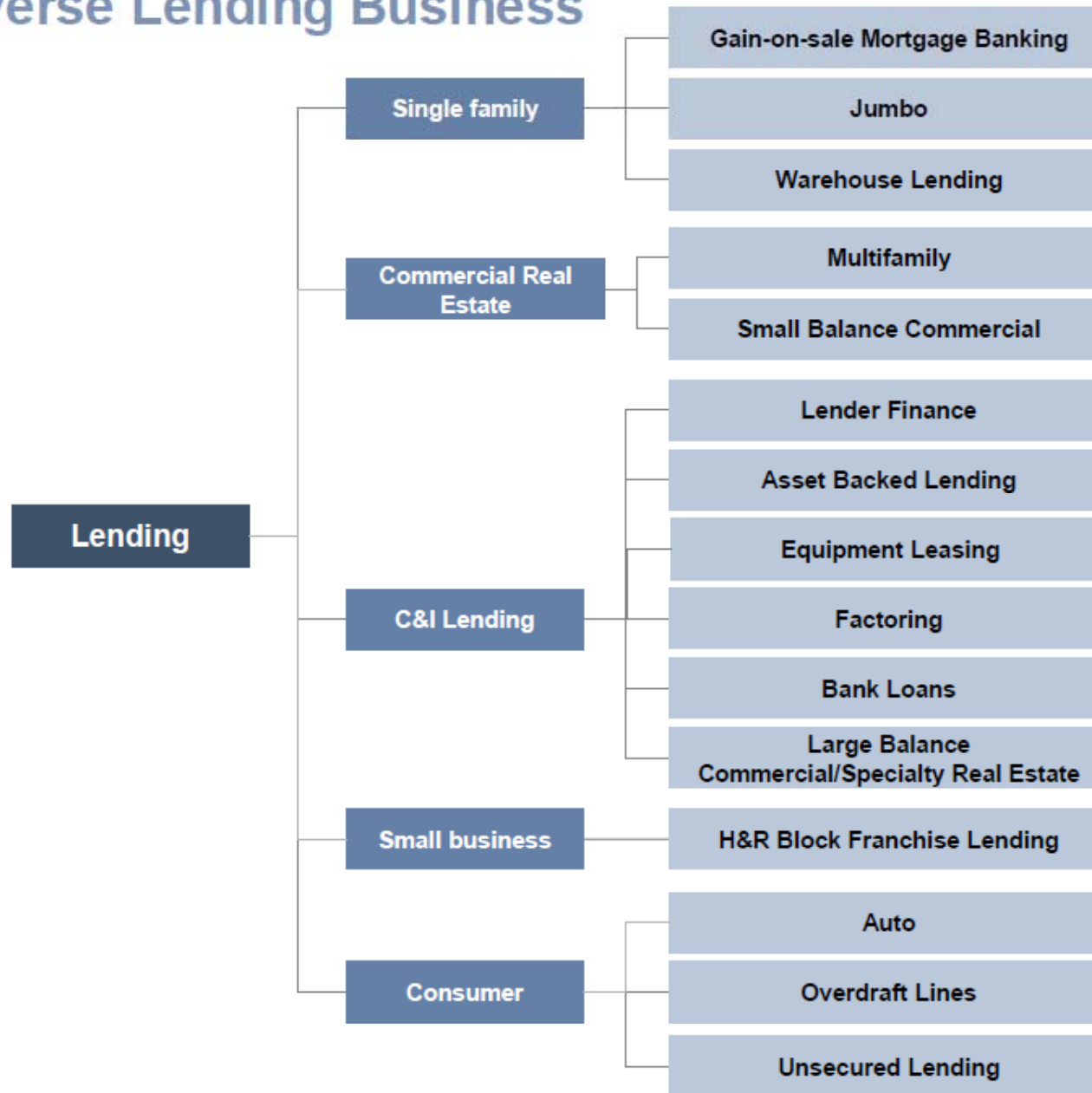
## Background on BofI Holdings, Inc. (Continued)



### Core Digital Capabilities



## Diverse Lending Business

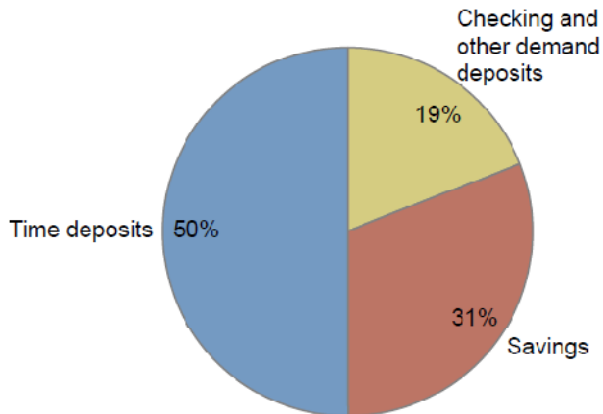




**Checking Growth (6/2013-3/2018) = 913%**  
**Savings Growth (6/2013-3/2018) = 268%**

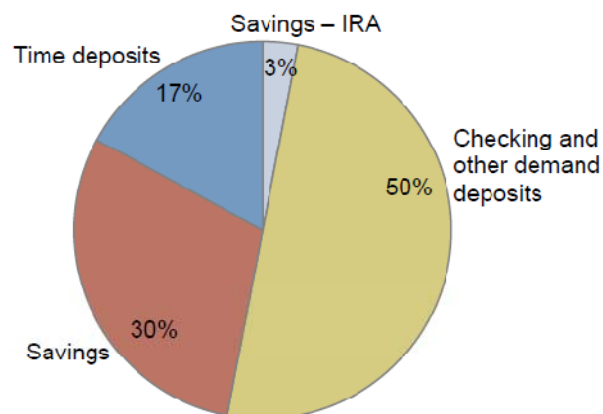
**June 30, 2013**

100% of Deposits = \$2.1 billion



**March 31, 2018**

100% of Deposits = \$8.0 billion



**Deposit**

## Diversified Branchless Deposit Businesses

### Key Elements





## Competitive Analysis / Barriers to Entry / MOAT

Effective business model creates sustainable best in class competitive advantage for BofI

- Bank business model disruption
- Continue to build/find new products and relationships
- H&R Block relationship is a great example

	<b>BofI Federal Bank</b>	<b>Peer Group</b>	<b>Percentile</b>
ROAA	1.79%	0.85%	93%
Return on equity	18.80%	7.92%	94%
G&A	1.56%	2.61%	20%
Efficiency ratio	32.75%	62.52%	6%

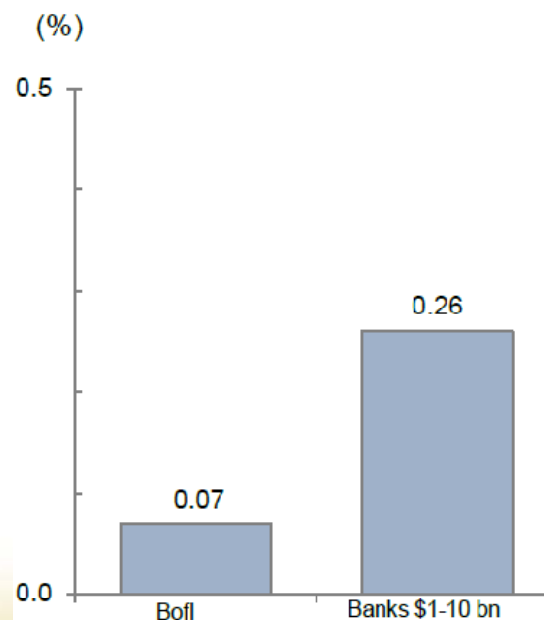
Source: Uniform Bank Performance Report (UBPR) as of 12/31/2017; data retrieved 4/30/2018.  
Note: Peer group is all savings banks with assets greater than \$1 billion for quarter ended 12/31/2017.

## Competitive Analysis / Barriers to Entry / MOAT

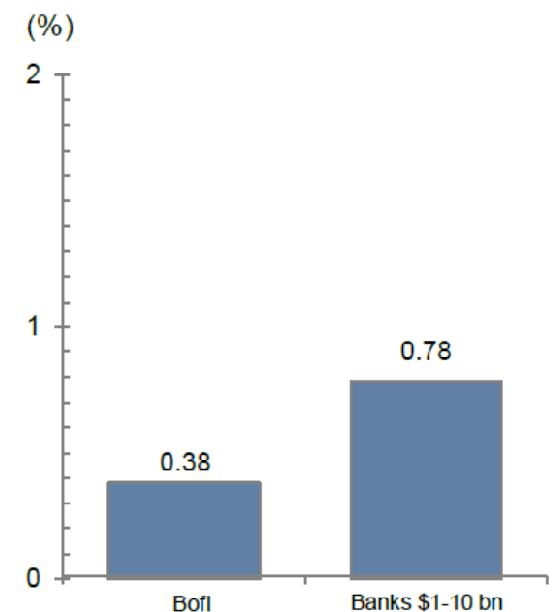
### Strong Credit Framework and Culture

- Bank focuses on credit quality
- Underwriters are incentivized properly for credit quality
- Many checks and balances in place to not allow poorly written loans
- Hire teams with strong credit performance/culture to join bank in new verticals (C&I lending)
- BofI's charge-offs have been below 1%, even during and after the great recession
- Charge-offs peaked at under 0.8% in 2011

**Total Net Charge-Offs Annualized<sup>1</sup>**



**Loans in non-accrual to total loans<sup>1</sup>**



## Strong Capital Allocation

**"As organizations failed, we hired the best,"** said Garrabrants of his strategy. -2010 (source: San Diego Union Tribune)

- Entered into the Jumbo Home Loan Market in 2010
  - Hired ex-veterans from Thornburg Mortgage (TM)
  - TM went bankrupt after the financial crisis due to its inability to securitize new loans
  - TM's loans still performed well post-crisis due to strong underwriting
  - BofI purchased best loans from TM during the crisis
  - BofI continued TM's strategy of underwriting low LTV loans in prime housing markets
  - BofI's deposits eliminates the funding risk that TM had which caused the business to file for bankruptcy
- SF Jumbo loan production of \$324 million in March 2018 Qtr
  - Avg FICO of 713 – LTV of 59.2%

## Strong Capital Allocation (continued)

**"As organizations failed, we hired the best,"** said Garrabrants of his strategy. -2010 (source: San Diego Union Tribune)

- Entered into the Multi-Family Loan Market in 2010
  - Hired Morgan Ferris to oversee the growth and development
  - Formerly of Commercial Capital Bancorp, which was acquired by Washington Mutual for \$1B
- MF loan production of \$141 million in March 2018 Qtr
  - Debt service coverage of 1.32 – LTV of 56.2%
  - MF loan portfolio of \$1.75B
- Entered into auto-lending market in last few years
  - Methodically grew loan book
    - \$20M in 2Q 2016, \$99M in 2Q 2017, to \$197M today

## Strong Capital Allocation (continued)

- Use combination of adding new products, distribution channels, and M&A to grow its business opportunistically and profitably

	2011	2012	2013	2014	2015	2016	2017	2018
New product	<ul style="list-style-type: none"> <li>• Business banking</li> <li>• Lottery</li> </ul>	<ul style="list-style-type: none"> <li>• Warehouse Lending</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury/cash management</li> <li>• C&amp;I</li> <li>• Prepaid</li> <li>• Agency Servicing retention</li> </ul>	<ul style="list-style-type: none"> <li>• Small balance CRE</li> </ul>	<ul style="list-style-type: none"> <li>• Auto</li> </ul>	<ul style="list-style-type: none"> <li>• HRB franchising lending</li> </ul>	<ul style="list-style-type: none"> <li>• Retail Auto</li> <li>• Refund Advance (H&amp;R Block)</li> <li>• Unsecured Consumer Lending</li> </ul>	<ul style="list-style-type: none"> <li>• Factoring</li> </ul>
Distribution/channel	<ul style="list-style-type: none"> <li>• BofI advisor</li> </ul>	<ul style="list-style-type: none"> <li>• Netbank</li> <li>• Retail Structured settlement</li> </ul>	<ul style="list-style-type: none"> <li>• UFB Direct</li> <li>• Bank X</li> <li>• IRA</li> </ul>	<ul style="list-style-type: none"> <li>• Virtus</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesale agency</li> </ul>		<ul style="list-style-type: none"> <li>• H&amp;R Block retail stores</li> </ul>	<ul style="list-style-type: none"> <li>• Homebuilder mortgage group</li> </ul>
M&A			<ul style="list-style-type: none"> <li>• Principal Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Union Federal</li> </ul>	<ul style="list-style-type: none"> <li>• H&amp;R Block Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Equipment leasing</li> </ul>		<ul style="list-style-type: none"> <li>• Epiq Trustee Services</li> </ul>



## Bringing it all together

- BofI targets a Net Interest Margin of 380 to 400 basis points
- Assume lower end of NIM range
- Assuming the company can continue to grow assets at 15% per year over the next two years
- \$3.10 EPS estimate for FYE 2019 (June '19)
- \$3.50 EPS estimate for FYE 2020 (June '20)
- Based on a set of 30 comparable banks, they are trading at an average Next Twelve Month P/E of 18.45 times
- Based on a set of 30 comparable banks, they are trading at an average Two Year Forward P/E of 17.76 times
- Additionally the 30 comparable banks have an average of expected 8.9% ROE and 1.1% ROA vs 17.5% and 1.8% for BOFI



## Bringing it all together (continued)

- Using \$3.50 EPS estimate for FYE 2020 (June '20)
- 18 times P/E multiple
  - Conservative due to growth and high ROE/ROA
- Target price of \$63/share in 2 years (Appx 45% gain)
- BOFI also expects to have approximately \$180M in excess capital by June 2019, which it intends to deploy via either buybacks, dividends, M&A or a combination of the three.
- Additional upside potential from Universal Digital Bank initiative putting all different parts of the bank on one platform

## Risks

- Our model assumes that the credit performance stays flat
- BOFI is unable to grow assets by 15% per year
- Costs of deposits does not grow as fast as loan rates
  - Net Interest Margin is at least 380 basis points
- Continued Short Attacks cause multiple to remain depressed
- Deploy excess capital poorly
- Economic downturn



QUESTIONS?

Ridgewood Investments

973-544-6970

[info@ridgewoodinvestments.com](mailto:info@ridgewoodinvestments.com)