

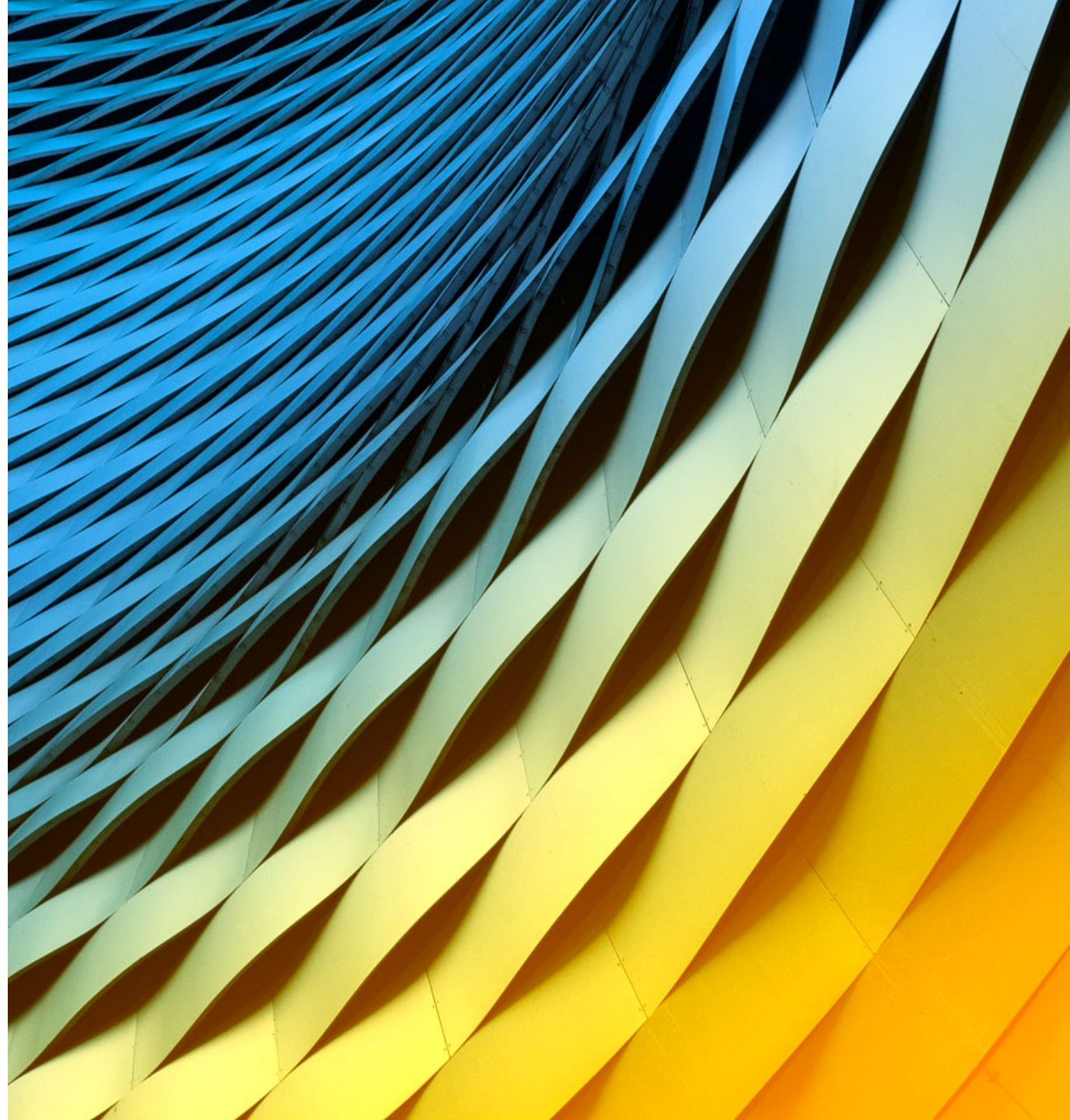
GFM Focus Investing - Investing In Compounders That Grow Intrinsic Value

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Portfolio Manager,
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Investing in Compounders

Anand Batepati, Portfolio Manager

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ANAND BATEPATI - PROFILE

Portfolio manager and co-investor alongside clients. Over 20 years of experience in New York, London, Hong Kong. Two finance master's degrees.

- Long / short fundamental investor with a concentrated portfolio.
- Designed quant investment strategies that managed several billion dollars at Bear Stearns.
- Launched a Fund of Hedge Funds in London.
- Co-founded and sold a tech startup in the US. Became a startup investor after that.

Mix of fundamental and quantitative skills. Held roles in value investing, derivatives trading, startups, private equity and accounting.

Visit gfmfocus.com for more information.



CAREER HISTORY



GFM
FOCUS INVESTING

**BEAR
STEARNS**



J.P.Morgan



HSBC

Rabobank

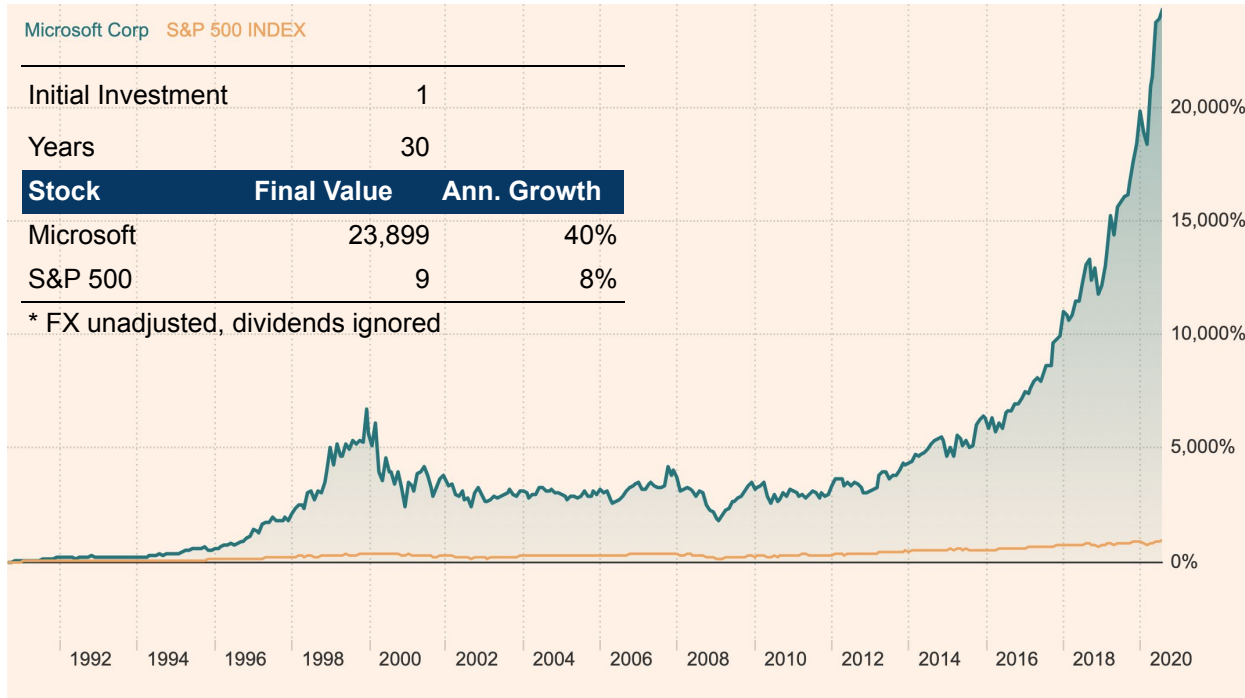
LIABILITY SOLUTIONS

AGILITY CAPITAL



#1: Compounding is **powerful**

MICROSOFT / BILL GATES / UNITED STATES / SOFTWARE



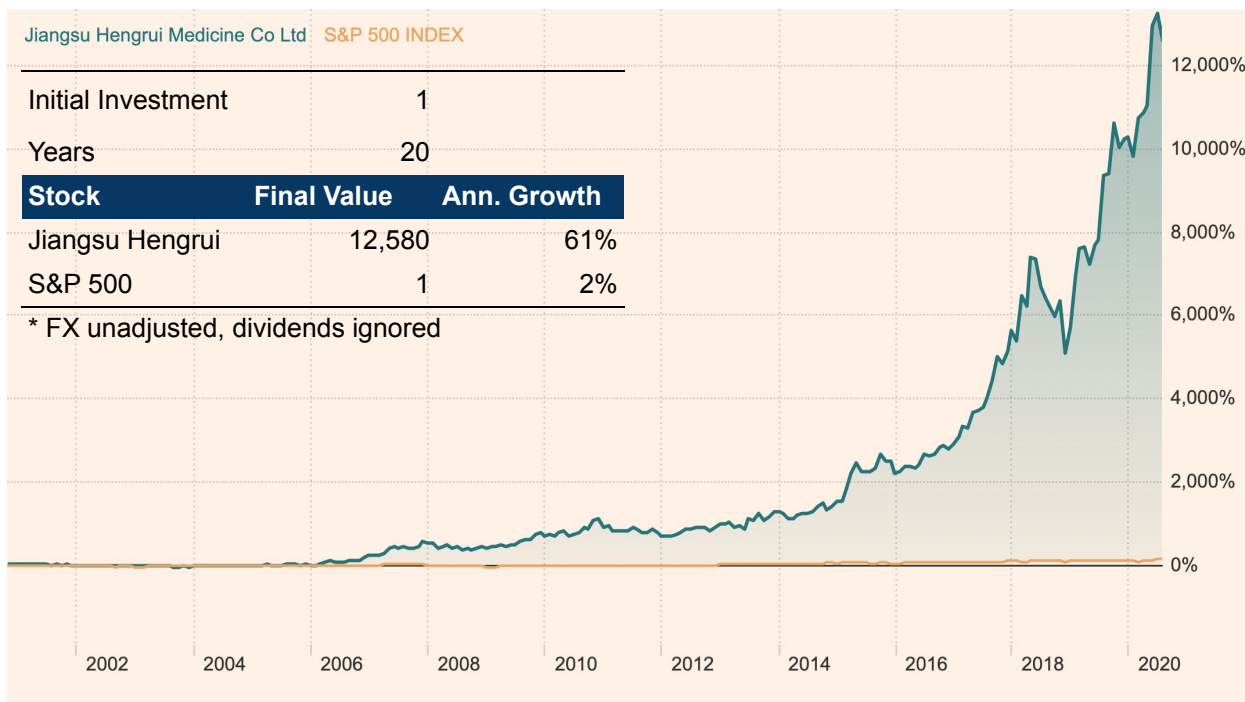
Source: Financial Times
Past performance is not indicative of future returns

DIALOG GROUP / NGAU BOON KEAT / MALAYSIA / OIL STORAGE



Source: Financial Times
Past performance is not indicative of future returns

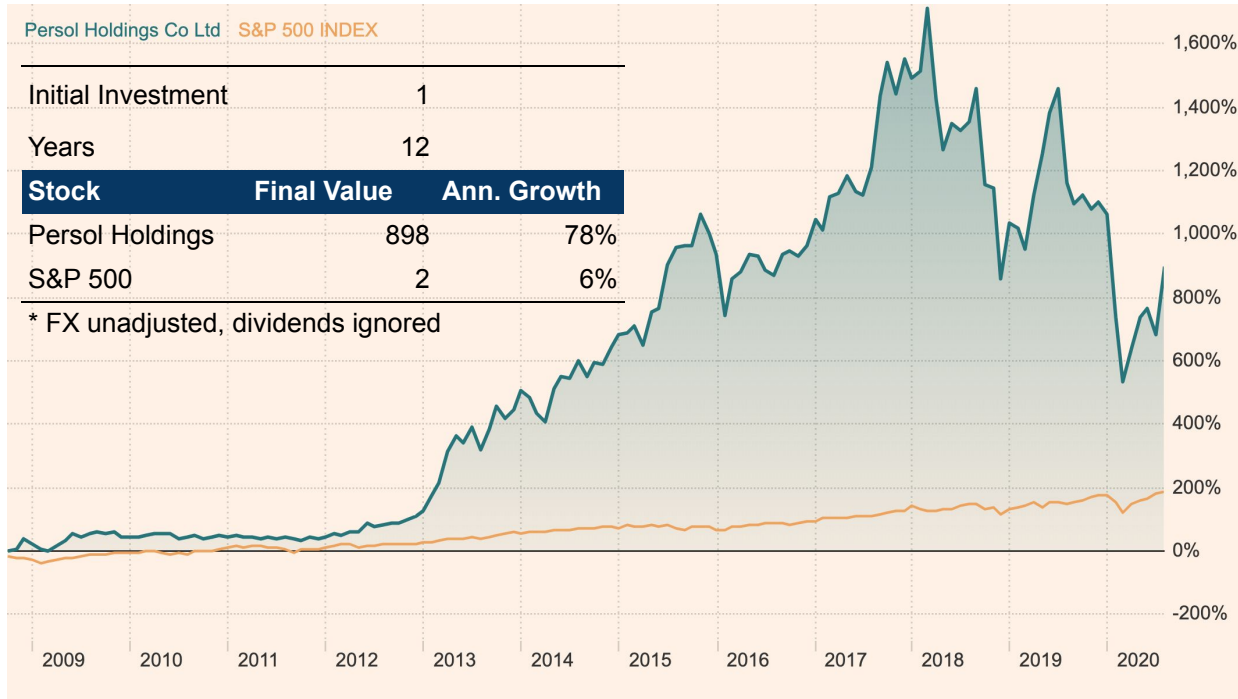
JIANGSU HENGRUI MEDICINE / SUN PIAOYANG / CHINA / PHARMACEUTICALS



Source: Financial Times

Past performance is not indicative of future returns

PERSOL HOLDINGS / YOSHIKO SHINOHARA / JAPAN / TEMP STAFFING



Source: Financial Times
 Past performance is not indicative of future returns

KEY POINTS

Compounding

It takes a **long time**.
5-10-20 years.

Think in years, not in
quarterly earnings.

It takes **just one stock** to
change your life.

Provided: you don't mess
with it.

You have to **know the
underlying business** to
think like an owner.

All the millionaires were
owners, not traders.

Investing

Yes, it is possible to
outperform the market!

But only in the **long-term**.

But you can't beat the
market by holding 100-200
stocks.

Then, **you are the market**.

It is not buy and hold. It is
buy and monitor.

It is about **harnessing
compounding** to work for
you.

#2: How do you **spot** a compounder?

A STORY FROM 2004: GOOGLE AND SMIC

Top 20 US Listed Technology IPOs priced since 2004

Priced	Value \$m	Issuer	Bookrunner
6-Oct-09	2,155.9	Verisk Analytics Inc	Bank of America Merrill Lynch, Morgan Stanley
18-Aug-04	1,916.4	Google	Morgan Stanley, Credit Suisse
12-Mar-04	1,803.0	Semiconductor Manufacturing International Corp - SMIC	Credit Suisse, Deutsche Bank
16-Jul-04	1,690.3	Freescale Semiconductor Inc	Goldman Sachs, Citi, JPMorgan
13-Aug-07	1,100.6	VMware Inc	Citi, JPMorgan, Barclays Capital, Credit Suisse, Bank of America Merrill Lynch, Deutsche
15-Jul-04	1,058.9	LG Philips LCD Co Ltd	Woori Finance Holdings Co Ltd, Morgan Stanley, UBS, Korea Investment & Securities
24-Sep-09	1,043.8	Shanda Games Ltd	Goldman Sachs, JPMorgan, Nomura
31-Oct-07	1,019.5	Giant Interactive Group Inc	Bank of America Merrill Lynch, UBS
5-Aug-04	1,012.0	Navteq Corp	Credit Suisse, Bank of America Merrill Lynch
5-Aug-09	745.2	Avago Technologies	Deutsche Bank, Barclays Capital, Morgan Stanley, Citi
28-Jun-05	695.8	Neustar Inc	Morgan Stanley, Credit Suisse, JPMorgan
14-Jul-10	660.1	SMART Technologies Inc	Morgan Stanley, Deutsche Bank, RBC Capital Markets, Bank of America Merrill Lynch, Credit
10-Mar-10	654.1	Sensata Technologies Holding NV	Morgan Stanley, Barclays Capital, Goldman Sachs, Bank of America Merrill Lynch, JPMorgan
8-Aug-06	627.9	Qimonda AG	Credit Suisse, Citi, JPMorgan
16-Feb-05	569.3	Dolby Laboratories Inc	Morgan Stanley
15-Dec-05	567.2	Spansion Inc	Citi, Credit Suisse
30-Mar-06	510.6	Himax Technologies Inc	Morgan Stanley
23-Jul-08	500.0	GT Solar International Inc	Credit Suisse, UBS
31-May-07	486.0	LDK Solar Co Ltd	Morgan Stanley, UBS
10-May-07	483.0	Solera Holdings Inc	Goldman Sachs, JPMorgan

- Both IPOs were in 2004
- Both had top i-banks bringing them to market
- Both were technology companies
- Both had strong pedigrees at the time of IPO
- Both raised about the same amount of money

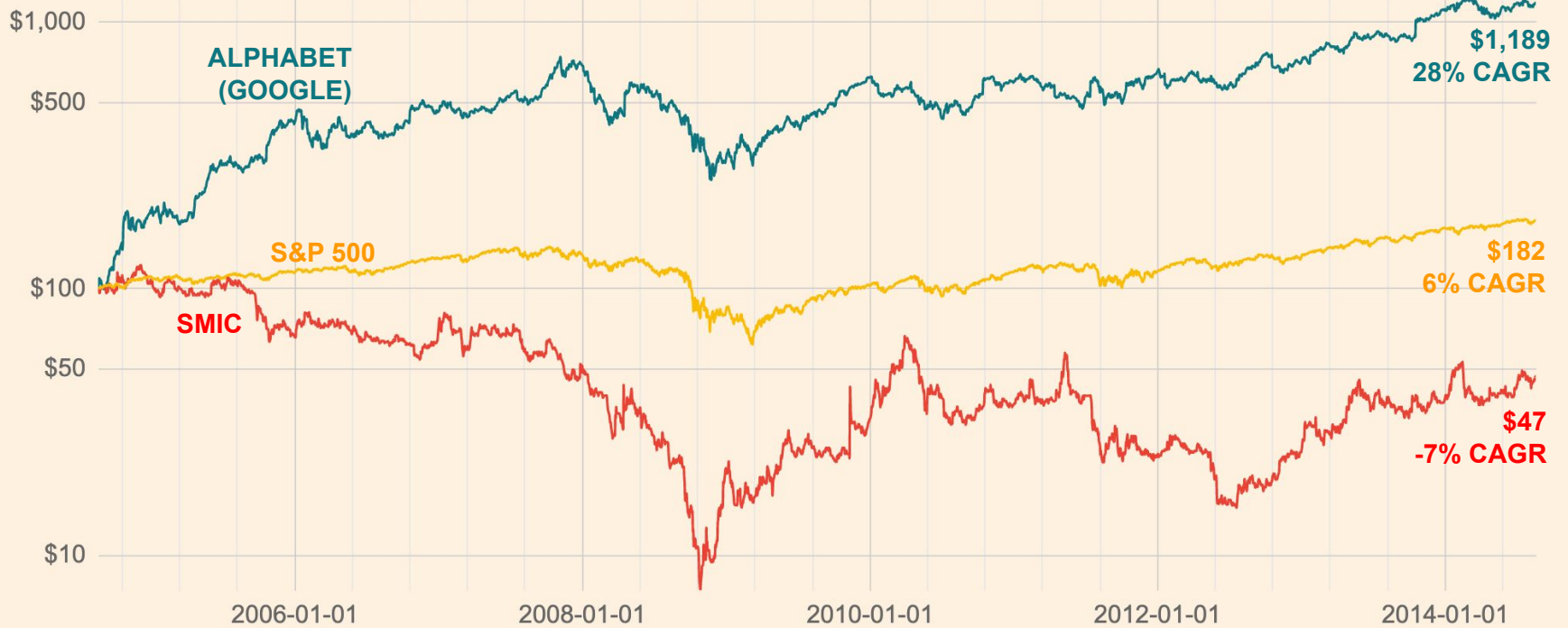
Google, the company, was renamed Alphabet in 2015.

Source: Dealogic

10 YEARS LATER IN 2014: MARKET VALUE OF US\$ 100 INVESTED AT IPO

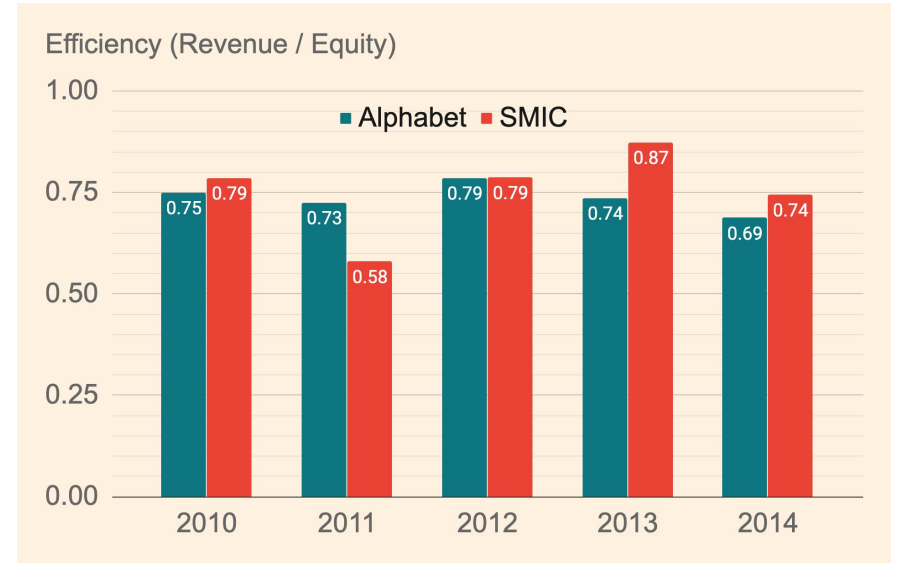
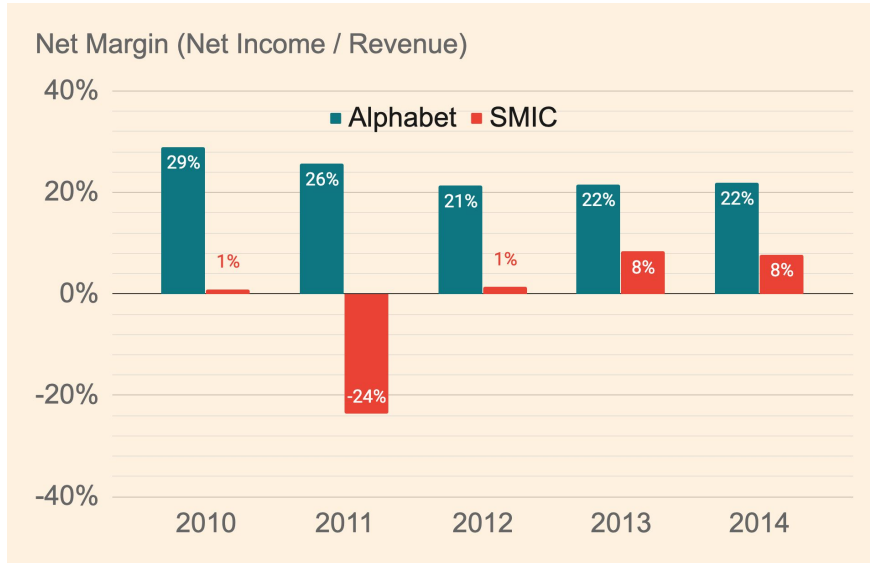
Source: Yahoo Finance

Past performance is not indicative of future returns



WHAT AN OWNER-INVESTOR WOULD HAVE SEEN IN 2015

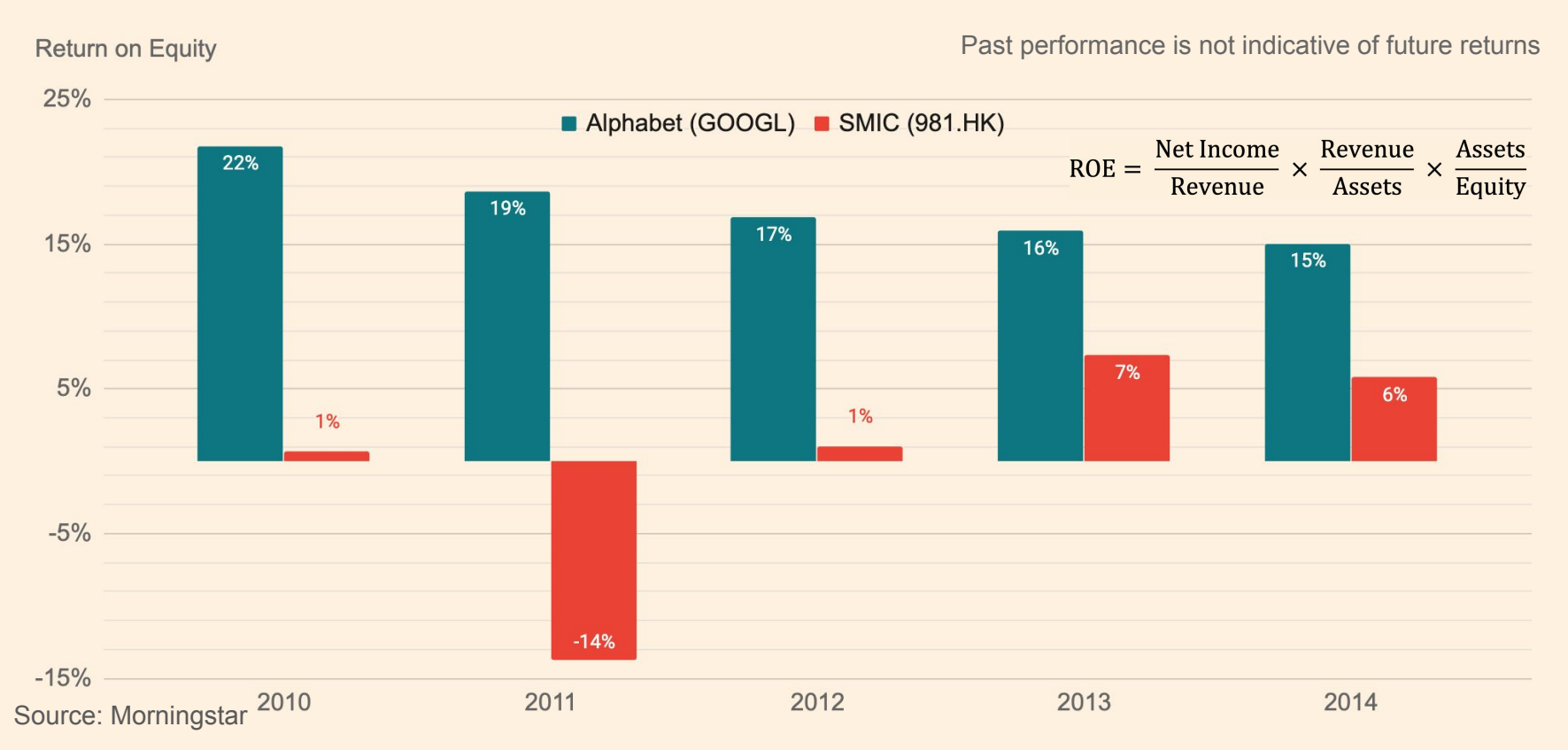
ROE COMPONENTS: **Margin** and **Efficiency** metrics spotlight Google as an excellent business.



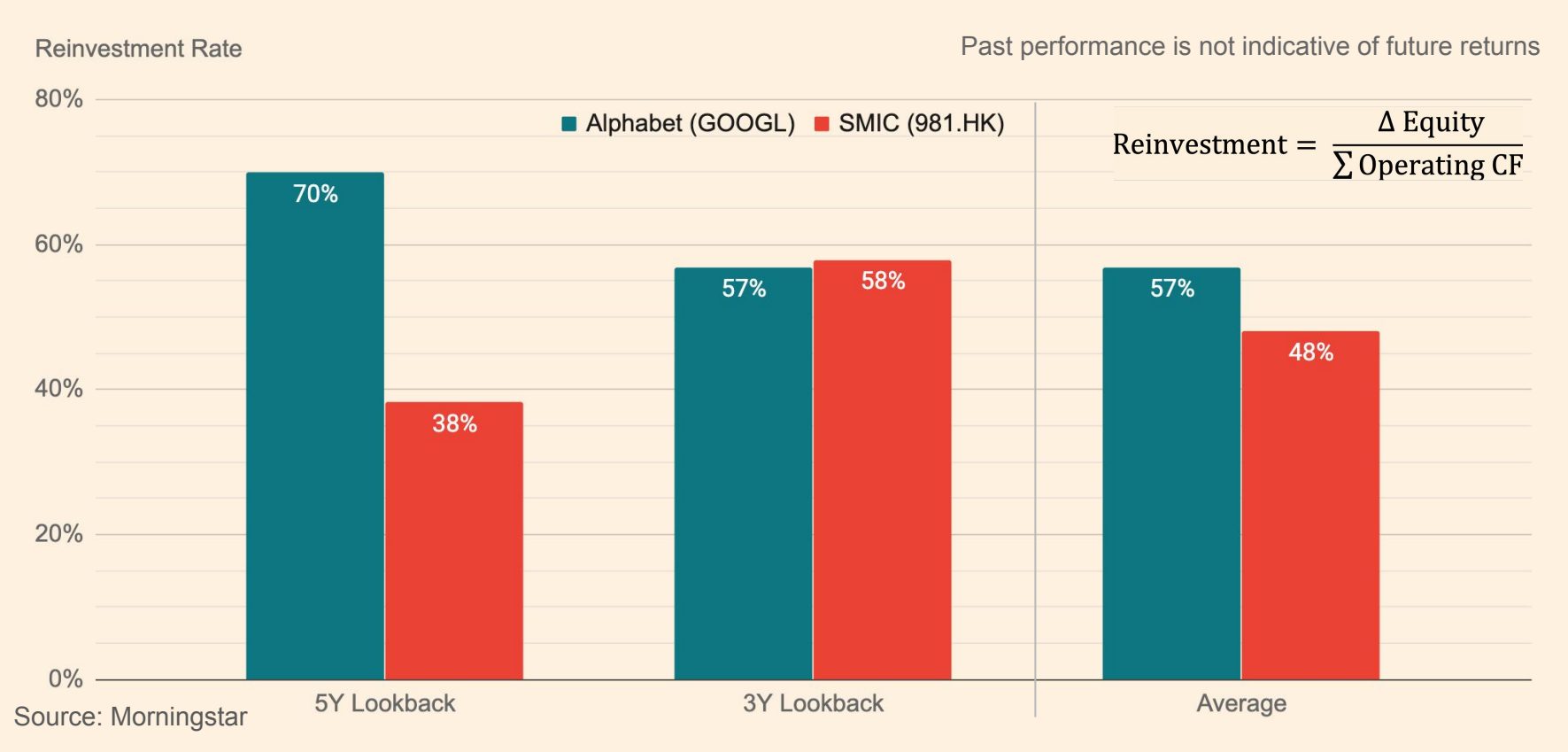
Source: Morningstar

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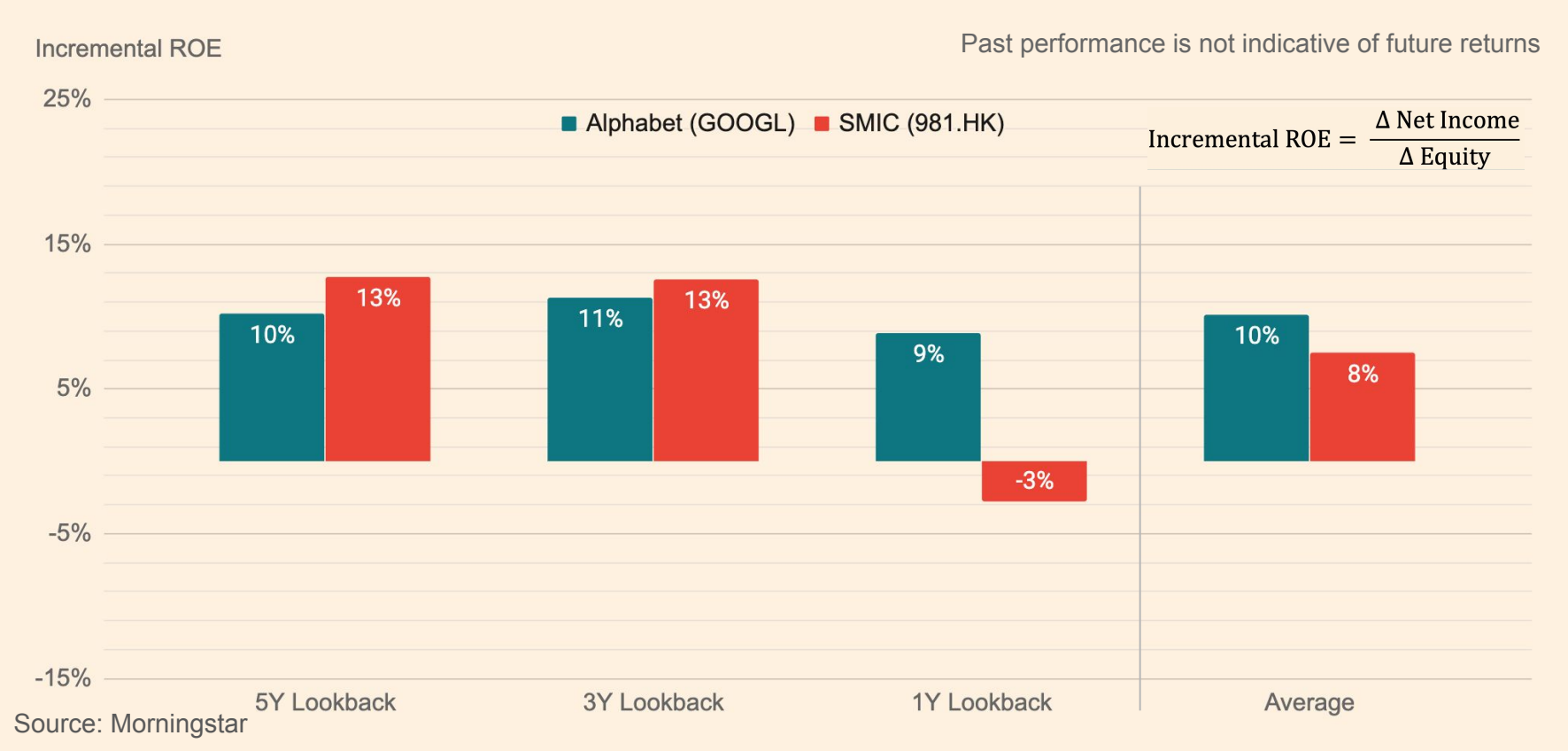
GOOGLE'S BOOK EQUITY CAN DOUBLE EVERY 3-5 YEARS VS. SMIC'S 10++ YEARS



GOOGLE WAS HEAVILY REINVESTING IT'S CASH EARNINGS BACK INTO THE BUSINESS

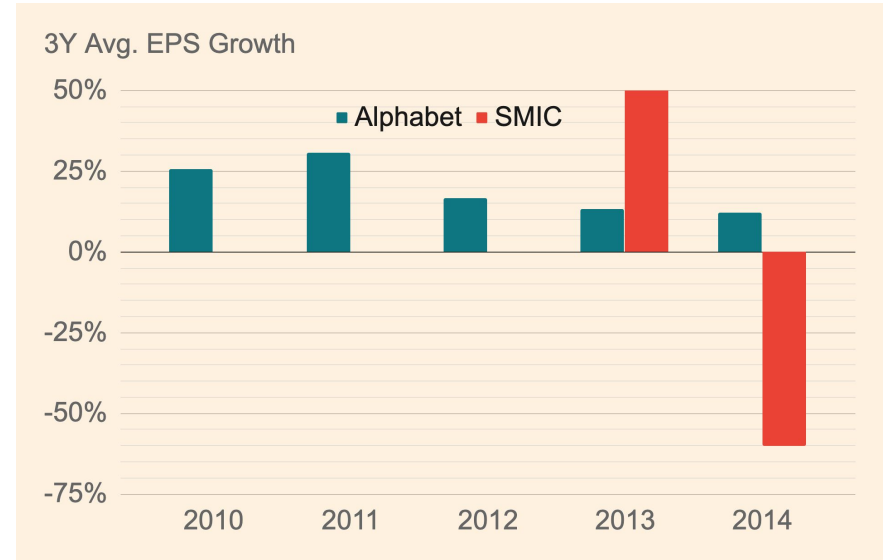
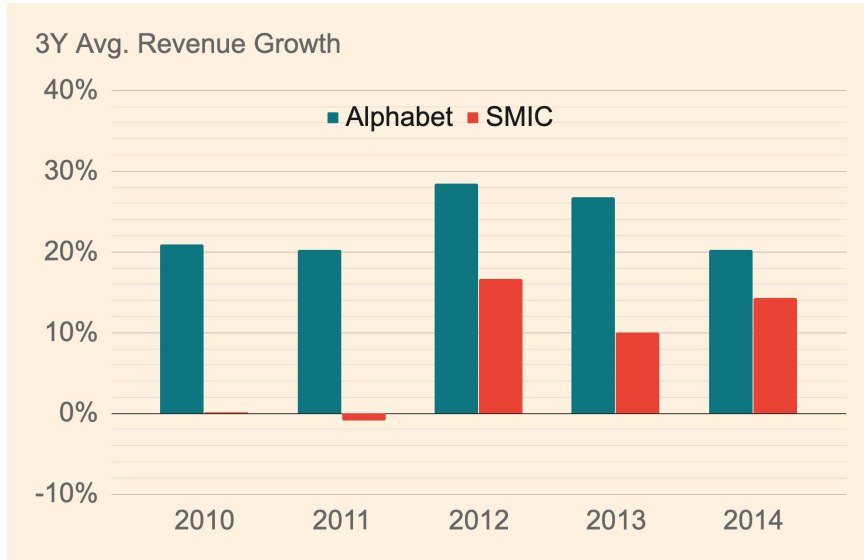


GOOGLE'S INCREMENTAL ROE FROM REINVESTMENTS: GOOD AND STILL RAMPING-UP



GOOGLE'S SUCCESSFUL REINVESTMENT WAS FUELING STABLE GROWTH

GROWTH: There is no wealth creation without **top- and bottom-line growth**.

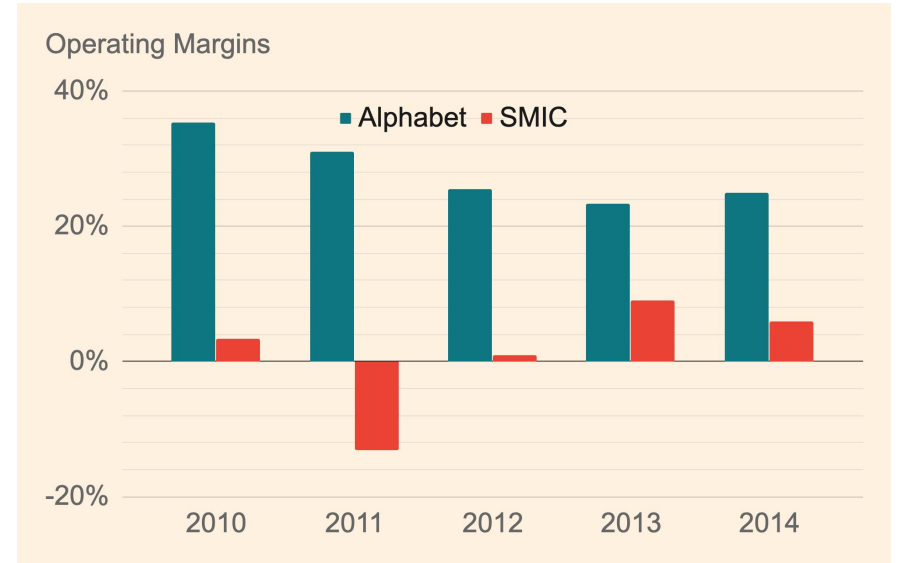
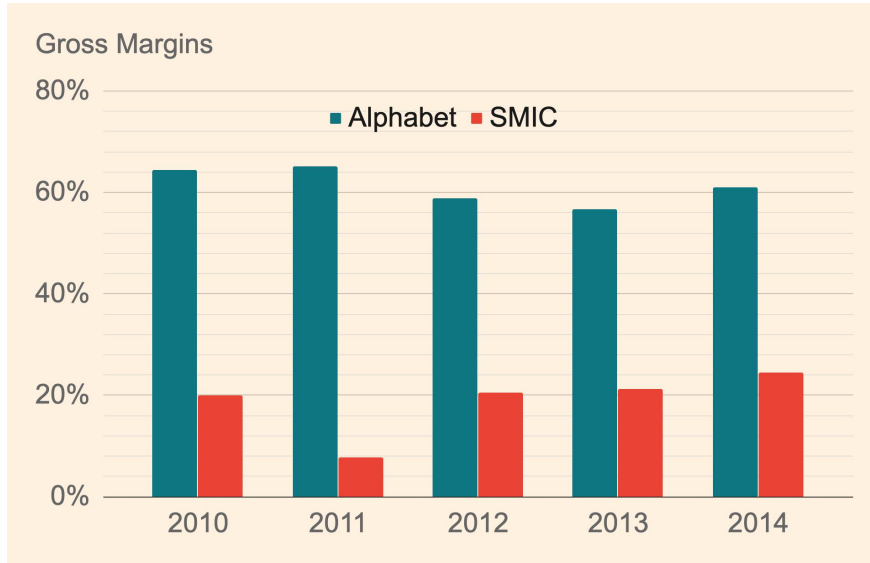


Source: Morningstar

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GOOGLE HAD EXTREMELY HIGH AND STABLE MARGINS

MARGINS: How much is **remains** after paying for expenses.

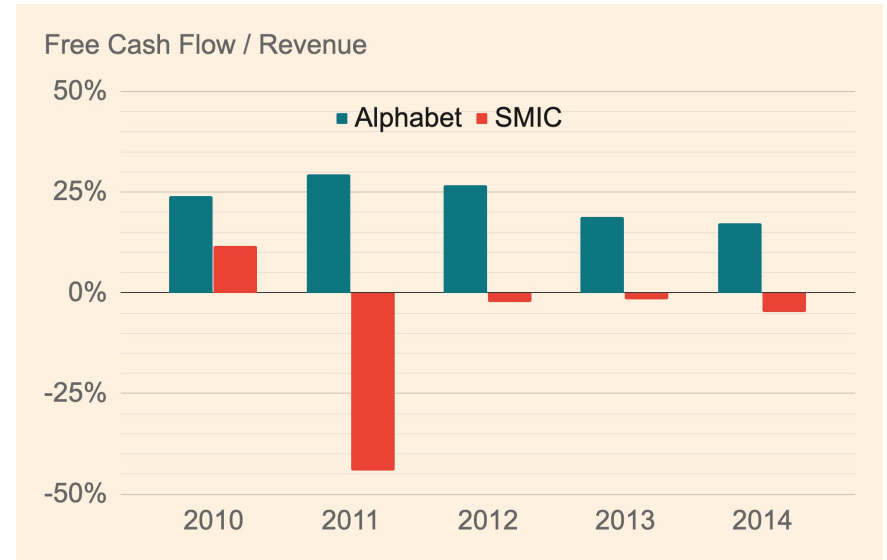
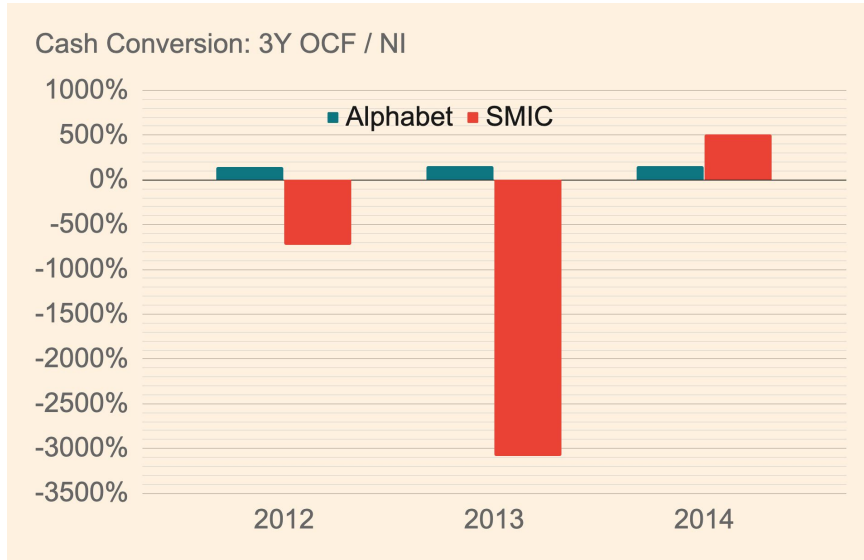


Source: Morningstar

Past performance is not indicative of future returns

SMIC'S EARNINGS QUALITY WAS TERRIBLE

EARNINGS QUALITY: How much of accounting earnings turn into **cash in the bank**, and how fast.



Source: Morningstar

Past performance is not indicative of future returns

AN OWNER-INVESTOR SUMMARY

2004 - 2014 Business Performance	ALPHABET (GOOGLE)	SMIC
ROE profile	15-25%	Negative
Reinvestment of cash flow	60-70%	40-60%
i-ROE from new investment	10-12%	10-12%
Resulting Revenue Growth	20-30%	Small
Resulting EPS Growth	12-25%	Unstable
Earnings to cash conversion	High, stable	Poor, unstable
FCF cash generation	Positive FCF	Negative FCF

Alphabet likely to compound further, but at a slower rate than 2004-2014.

- i-ROE below overall ROE
- Growth is slowing, size is bigger

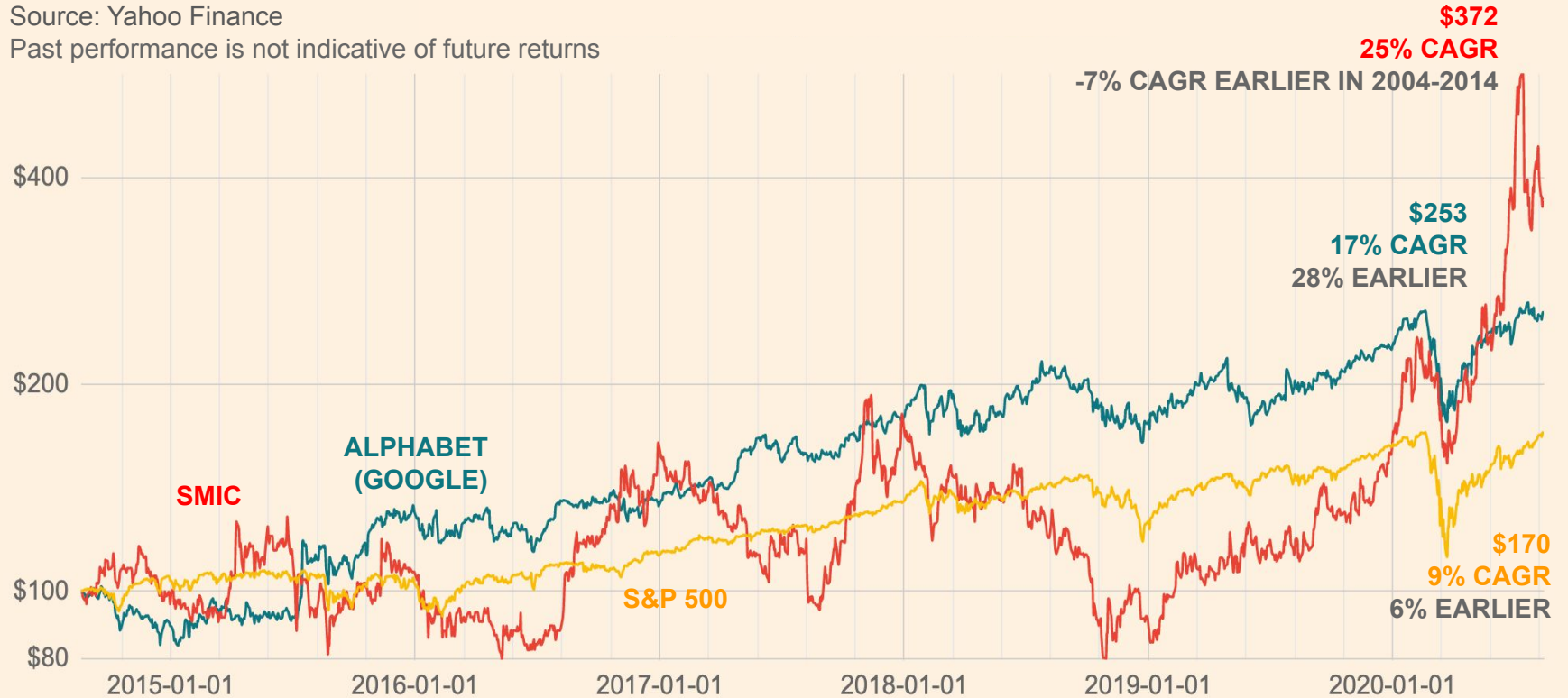
SMIC likely perform better than the past but unsure how much better.

- i-ROE is better than past
- But old bad-ROE investments still dominate
- Fundamentals still unstable, but improving

2014-2020: AS EXPECTED 1) GOOGLE IS COMPOUNDING BUT SLOWER 2) SMIC HAS IMPROVED

Source: Yahoo Finance

Past performance is not indicative of future returns



ANATOMY OF A COMPOUNDER

High and stable ROE,
indicating a special
business

High reinvestment rate
to fuel future growth

High incremental ROE
from those new
investments

Reinvestment + good
i-ROE manifests as high
revenue growth +
earnings growth

High cash conversion
from earnings to
operating cash flow

Cash generated is used
to finance reinvestment
and fuel future growth

Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns.

If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return - even if you originally buy it at a huge discount.

Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.



Charlie Munger

#3: Which compounders are good investments?

Compounder



Margin of Safety



Exceptional Investment

High ROE

High reinvestment

High incremental ROE

Generating earnings growth

With high earnings quality

Refers to valuation paid to buy stock

Where the risk of permanent loss on money invested is low

Upside is several times bigger than downside

Overall risk / reward is outstanding

Dialog Group 1996-2020

-Double every 2 years!

Persol Holdings 2008-2020

-Double every 15 months!

Google 2004-2020

-Double every 3.5 years

Vs

SMIC 2004-2020

-Double every 20 years!!!

CASE STUDY: XPEL INC (2016: DAP/U.CN, 2020: XPEL.US)



Source: Financial Times

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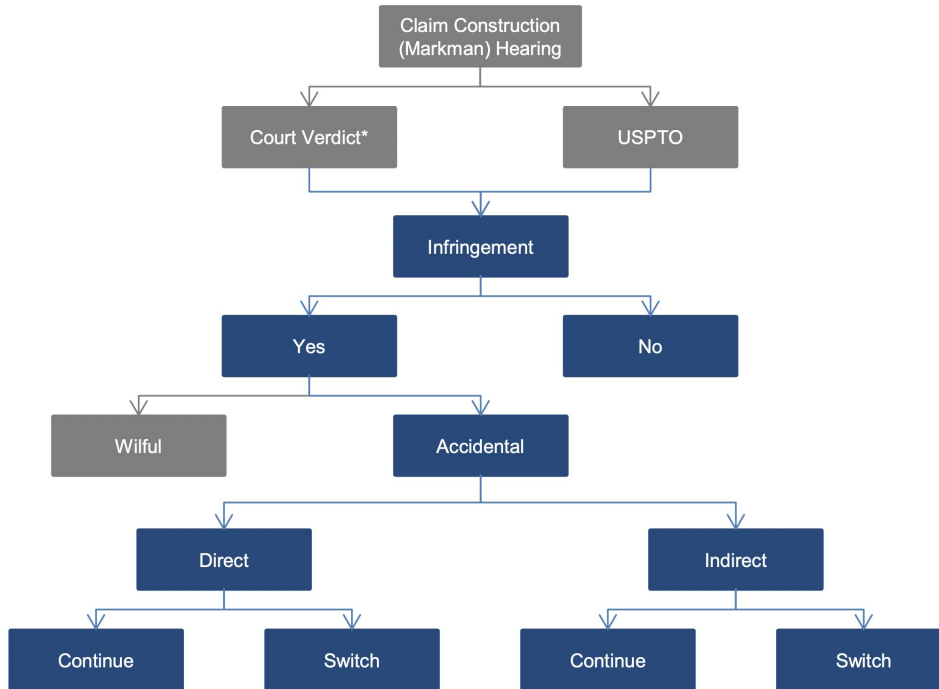
Xpel was a Toronto listed small-cap in 2016.

It sold an adhesive film for cars to protect against scratches and nicks.

3M filed a patent infringement lawsuit on 29 Dec 2015. The stock collapsed 60% that day.

Xpel's 100% retail shareholder base were dumping the stock in panic at the news.

OUR EDGE: INVESTING EXPERIENCE IN PATENT LAWSUITS



Source: GFM Focus

We had some recent experience with a 2015 US patent lawsuit-driven investment. We had done in-depth work on that and other cases like the Motorola-Apple lawsuit.

We knew that any doomsday legal judgement was at least 4-8 years away.

Xpel was even 1-2 years away from the initial “Markman Order”.

There were other outcomes: settlement, company sale, etc.

Meanwhile the stock was trading as if liquidation was that imminent in a week.

XPEL IN JAN 2016: MARGIN OF SAFETY WAS ENORMOUS

VALUATION: One of the cheapest stocks globally

- 2-5x EV/EBIT as normalized by us
- Market cap was below reproduction value!

FUNDAMENTALS: Healthy, growing, shareholder friendly

- Earnings and Cash Flow positive for last 5 years
- Debt was tiny, Balance Sheet was clean
- 50% revenue growth was being financed by cash generation
- CEO was invested. Background checks were positive

MOAT: 3M and Eastman were struggling to compete

- We found a switching cost **moat** at a dealer level
- We also found a **moat** at customer level: car resale value
- Growing market share with tailwind of a growing market size

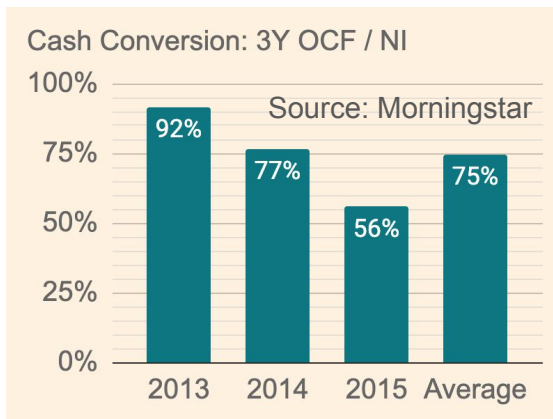
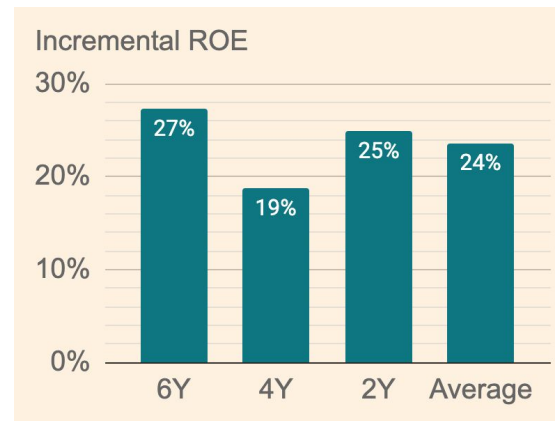
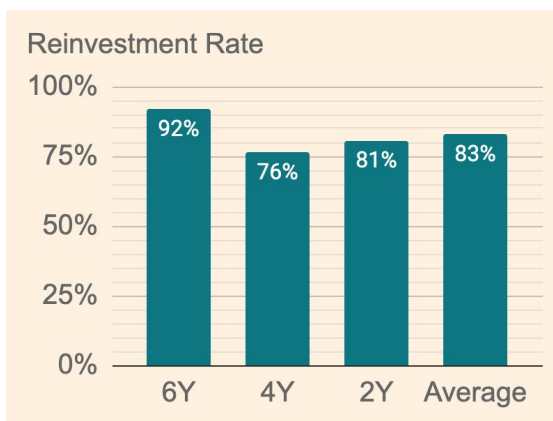
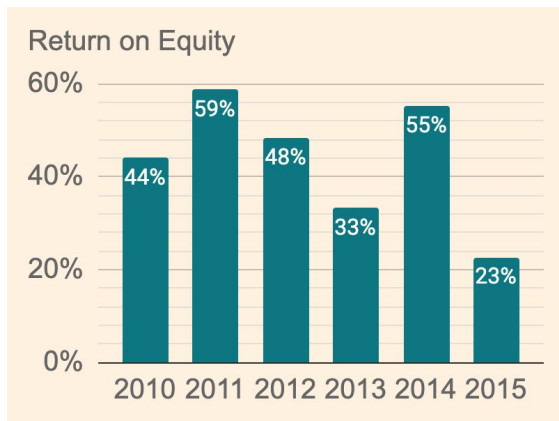
OPERATIONS: Untouched by the lawsuit at the time.

- No impact (yet) with dealers or suppliers. We checked

We saw chance of permanent loss as tiny, and possible upside in 3-4 years as very big.

Margin of Safety was enormous in our view.

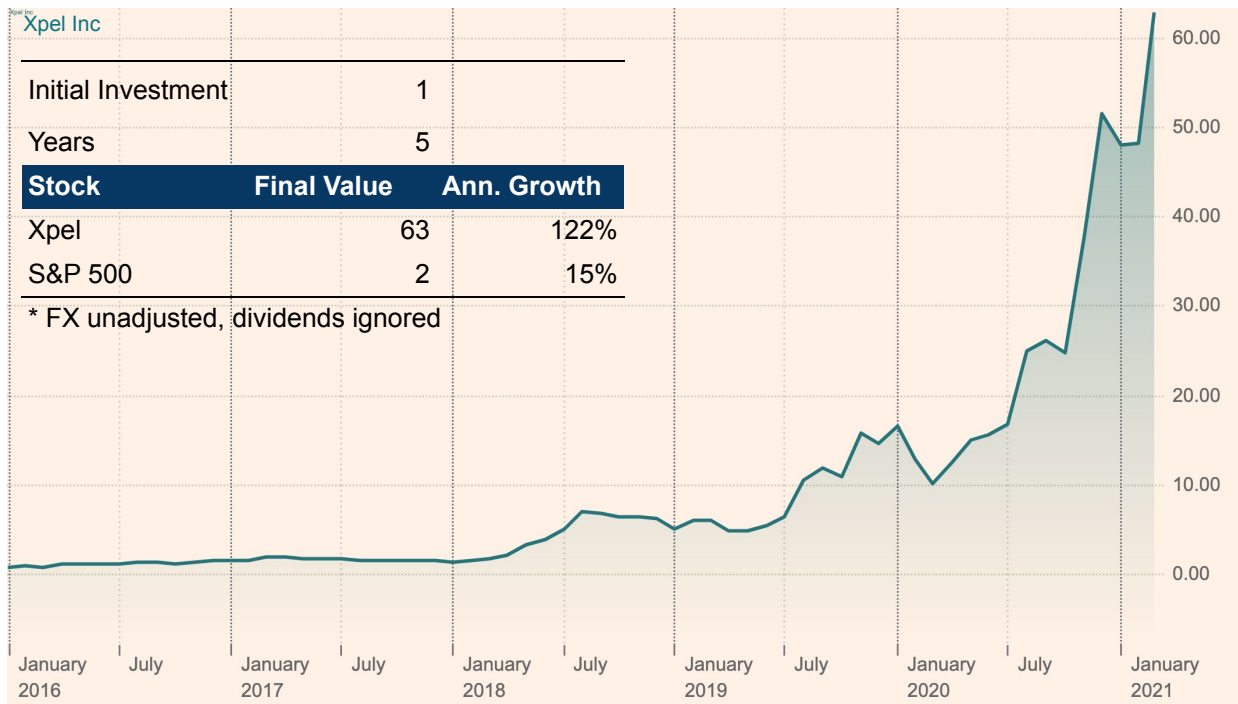
XPEL IN 2010-2015 WAS A COMPOUNDER. THIS WAS LIKELY TO CONTINUE IN 2016 ONWARDS



- Sky high ROE. High reinvestment rate at high incremental ROE.
- Revenue and earnings growth rates were excellent.
- Earnings quality was also good.

Past performance is not indicative of future returns

THE INVESTMENT IN 2016-2020: MILLIONAIRE FACTORY!



\$100k invested in Jan 2016 would be worth \$6.3 million in March 2021.

Could have bought **anytime** in 2016 - 2018 and achieved exceptional success.

It was hard work! But it shows that big opportunities come up. They do come up.

Note also: The road was bumpy. There was a 40% drawdown in January - March 2020.

Source: Financial Times

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XPEL SOURCE OF WEALTH CREATION FROM 2010-2019

EPS GROWTH AND P/E EXPANSION

Year	Revenue USD Mil	EPS USD	Stock Price 31 Dec	P/E Multiple
2010	4	0.02	0.01	1
2011	6	0.03	0.09	3
2012	11	0.05	0.23	5
2013	18	0.05	1.28	26
2014	30	0.12	3.05	25
2015	41	0.06	1.01	17
2016	52	0.08	1.40	18
2017	68	0.04	1.40	35
2018	110	0.32	6.10	19
2019	130	0.51	14.65	29
10Y		2550%		4633%

Source: Morningstar, FT

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XPEL SOURCE OF WEALTH CREATION

10Y Summary	Value Breakdown	Contribution Note
Starting Value	0.01	0%
Value from EPS Growth	0.30	2% Can be predicted through research
Value from P/E Expansion	0.56	4%
Value from Combined	13.78	94% Always follows EPS growth
Value Today	14.66	100%

COMPOUNDER X
MARGIN OF SAFETY

= EXCEPTIONAL INVESTMENT

THE FUTURE IS
BRIGHT!



In **March 2021**, we are still finding **compounders** that also offer a large **margin of safety**.

1. A profitable, growing **elder-care business** that is also a high-quality property development business in disguise. With ageing population & growth of suburbs, this company can grow its earnings power many times + benefit from location value growth.
2. A moat-y, leading **cloud software business** is mispriced inside a mature slow-growing business. There are verifiable catalysts in place to unlock value in 1-3 years + visible cloud business growth for many years.

Good luck and successful
investing to all.



Anand Batepati

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