www.perspectiveim.co.za
Unit 22, Victoria Junction, Prestwich St., Cape Town 8001

Daniel's Perspectives – February 21st, 2018

Why I focus on businesses that give it to me straight

Facts drawn from the 2017 annual reports and my firsthand experiences with 2 JSE listed investment holding companies:

A) 'Company XYZ'

1) A hodgepodge listed peer group is selected for valuing unlisted investments, which adds up to 100% of the portfolio. No basis for decision making is disclosed and it changes without explanation.

2) An EV/EBITDA multiple is chosen on a 3-year trailing basis, applied to 'adjusted EBITDA' and changed without basis or explanation.

3) Results presentations lack detail with little to no room for Q&A. Direct, considered, respectful questions by shareholders are persistently met with hostility and vague answers, at best.

B) Remgro

1) Listed investments are valued at the latest exchange-traded liquid share price and adds up to 76% of the portfolio.

2) Valuation methods are disclosed and applied consistently for each unlisted investment, being mostly a DCF.

3) No control premiums are added to controlling stakes. Tradability discounts are subtracted for minority stakes and a maximum CGT liability is subtracted for all investments.

4) Results presentations are comprehensive with ample time for Q&A. Direct questions to management are answered clearly and respectfully.

I've learnt to focus on companies that consistently communicate with shareholders as Remgro does.

Our work continues...

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