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Presentation by Sid Choraria

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1 Introduction

Introduction



Process: Wonderful business, wonderful prices in Asian markets

- High quality business: Pricing power, reinvestment, cash cow and certainty. Some countries offer a richer and fertile hunting ground than others.
- Incentives/accounting: compensation structures, incentives, people matter, culture matters. Pay attention to incentives. I prefer to seek out “Outsider” capital allocators.
- Wonderful price: predictability and probabilities, cash flows and worst case outcomes. I think in terms of opportunity costs, costs of capital and aim to learn from and minimize errors
- Focused portfolio: Goal of owning 8-15 great businesses; thinking long-term

Kobayashi Pharmaceutical first presented on MOI in 2014 shared with Mr. Buffett influenced me

Kobayashi Pharmaceutical presented on MOI Global in 2013; amongst first ideas on MOI

- Elicited Mr. Buffett’s interest on Asian wide-moat 125-year old company; stock has outperformed global indices
- Full MOI interview here thanks to John: <https://moiglobal.com/kobayashi-pharmaceutical-201311/>
- Invited to speak at leading universities including Princeton, Harvard, NYU, Columbia, USC, Wharton and Brown

Background

Asia experience lived in Singapore, Hong Kong and India over the last 2 decades:

- Grew up in India, 30+ year family business pan India presence, focus on compounding and returns on capital
- Portfolio Manager & Head of Asia Research in Singapore, \$4bn global value firm
- Vice President, Asia Focused Hedge Fund, \$3bn Asia focused Firm
- Goldman Sachs Asia Tech, Media investment banking, Hong Kong and Merrill Lynch Hong Kong / New York
- Bandera Partners, New York during Stern MBA where I was Harvey Beker Scholar and Investment Analyst at the Michael Price Student Fund

2 Asia Case Study: Identifying High Quality Businesses in Asia

Despite a 125-year old history with high returns on capital and reinvestment opportunities in Asia, foreign institutional investors and even domestic analysts ignored it.

Japan's Kobayashi identified through process

1

Wonderful Business

- 125-year history with 155 brands
- 43 brands with top domestic share
- "Big fish in a small pond" strategy with ability to introduce new products
- 21% contribution from new products
- 50% returns on capital (value creation)

2

Incentive Alignment, Capital Allocation

- 20 consecutive dividend increases, 20 years of profit growth
- Repurchase during financial crisis
- Divestment of loss-making divisions
- ROI focus in culture and management

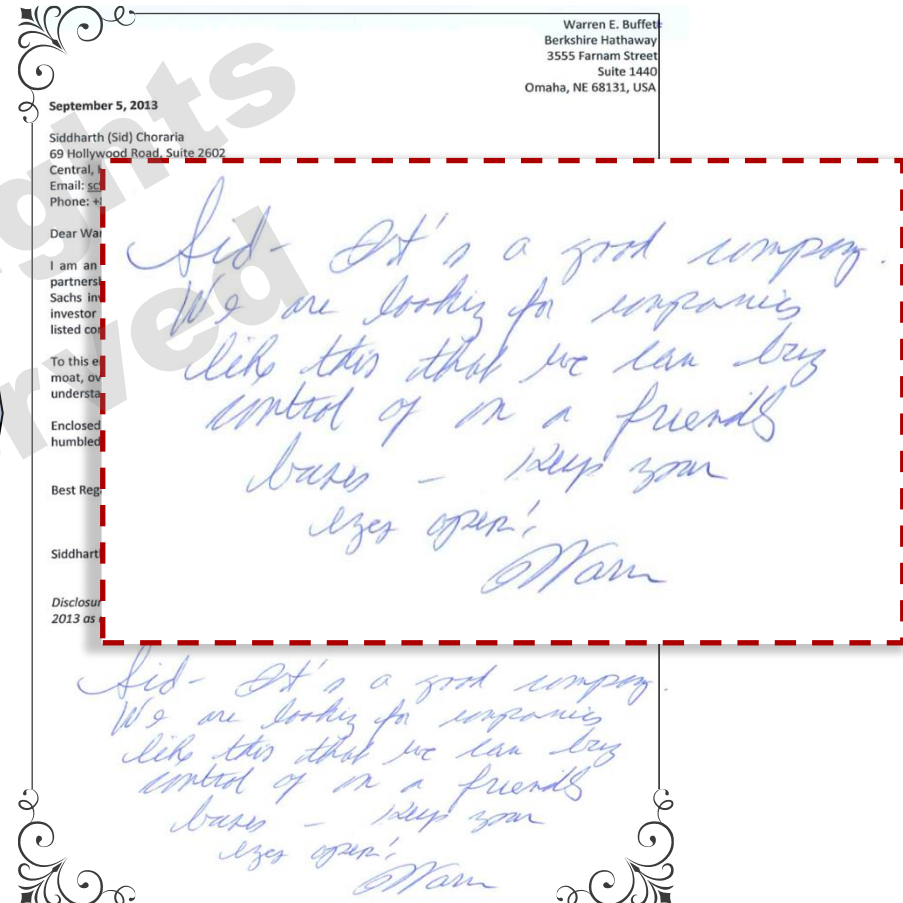
3

Wonderful Price

- Less than 8x EBIT, 5% FCF yield despite 50% returns on capital
- Limited institutional ownership
- Limited sell-side coverage



Letter to Mr. Buffett: "keep your eyes open!"

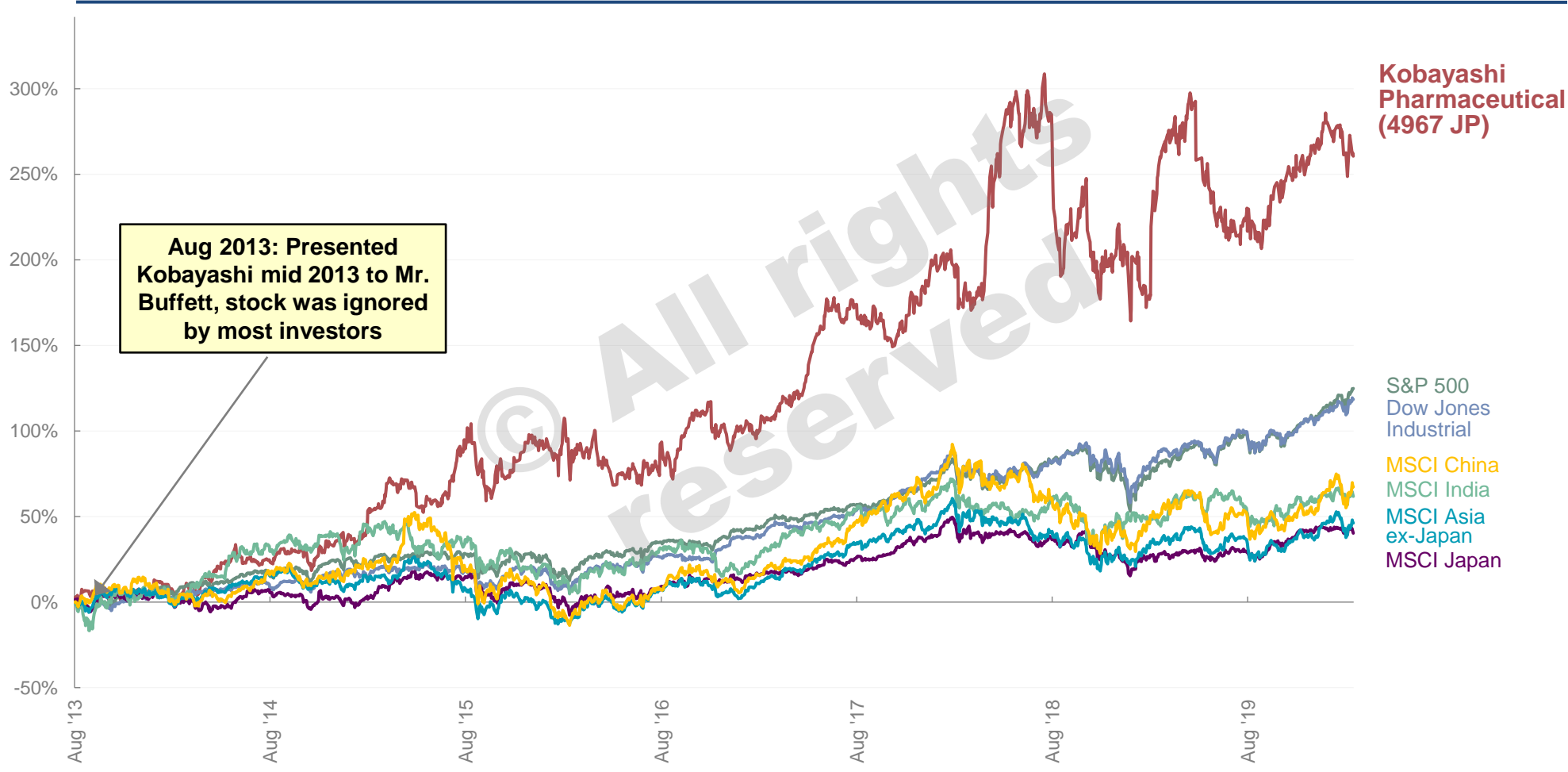


1: Read full interview: <https://moiglobal.com/kobayashi-pharmaceutical-201311/>

2 Case Study: Kobayashi Outperformance vs Global and Asian Indices (2/2)

Kobayashi has increased nearly 4x and beat Asian and US indices and was not followed by most institutional and analyst investors at the time of the pitch












Kobayashi Relative and Absolute Performance since August 2013



1: Read full interview: <https://moiglobal.com/kobayashi-pharmaceutical-201311/>

2 Inversion: Even in a Crisis, Resilient Businesses Like Kobayashi Are Up







In times of crisis, strong business franchises, which are highly likely to be around for another 50 years and essential to customers have still done well in a bear market

Company	Country	M cap	EV	YTD	Index	Industry	Why is this worth your attention?
Kobayashi (4967) 	Japan 	\$7.8bn	\$7bn	+13%	-17%	Consumer brand	<ul style="list-style-type: none"> 125y business that will thrive the next 50 years with niche products that do not change Big fish in a small pond and ability to innovate niches 20y track record of cash generation, profits.
Netease (NTES) 	China 	\$42bn	\$36bn	+7%	-7%	Gaming	<ul style="list-style-type: none"> 18 year track record of cash generation, revenue growth Outsider type capital allocator with skin in game Repurchased stock in last financial crisis
Nestle India (500790) 	India 	\$21.4bn	\$21bn	+14%	-28%	Food products	<ul style="list-style-type: none"> Pricing power and resilient revenue growth with everyday products that Indians want Maggie, Nescafe, Cerelac, Lactogen, 45-90% market share
Foshan Haitian (603288) 	China 	\$48bn	\$46bn	+18%	-8%	Sauces	<ul style="list-style-type: none"> Pricing power and growth opportunity with everyday products that over a 1bn Chinese consume Wide moat due to process, distribution network, brand
Hartalega 	Malaysia 	\$5.6bn	\$5.6bn	+33%	-14%	Gloves	<ul style="list-style-type: none"> 15 year track record of cash generation, reinvestment 20% returns on equity and 20%+ revenue growth
CSL Limited (ASX: CSL) 	Australia	\$88bn	\$92bn	+14%	-22%	Biotech	<ul style="list-style-type: none"> 100y old business with pricing power and growth 45% ROE with 20y record of cash generation and growth

Source: Company filings, industry reports, public reports

3 Sid Choraria: Selected Asia Large / Mid Cap Wide Moat Businesses









In times of crisis, strong business franchises, which are highly likely to be around for another 50 years and those businesses that have strong brands and balance sheets with cash and IP available at wonderful prices is key

Company	Country	History	M cap	EV	Niche	Why is it worth your attention ?
Nintendo (7974) 	Japan 	131 years	\$47bn	\$35bn	Gaming	<ul style="list-style-type: none"> • Huge IP not reflected in business value with large barriers to entry • Monetization opportunity for iconic brand: partnership with Tencent in China and currently under monetization of mobile/cloud • Strong balance sheet: 30% cash on BS; Indirect beneficiary due to current crisis provides downside protection • Bargain valuation for franchise: Predictable free cash yield; has historically paid out 80% of free cash in dividends or repurchases • Risks regulatory; however any pull back is a long-term opportunity • DeNA (2432) – negative EV for value investors due to stake
Shionogi (4507) 	Japan 	142 years	\$15.5bn	\$10.8bn	Healthcare	<ul style="list-style-type: none"> • Niche leader in infectious diseases with great management and past track record of hit products (Crestor, anti-HIV) • Theme in current crisis environment provides downside protection • Overseas growth potential: JV with Ping An Alliance in China • Wonderful price: 12-14% free cash yield; 30% cash market cap; 60% FCF paid out div + repurchases; bought stock in last crisis • Risks: poor pipeline; however current valuation prices this in
Ottogi (007310) 	South Korea 	51 years	\$1.5bn	\$1.5bn	Food products	<ul style="list-style-type: none"> • Dominant Korean brand in sauce/condiments, instant foods, ketchup, spices, noodles with high market share of 30-80% • 15+ year track record of revenue, cash flow and earnings growth. • Munger wide moat business with pricing power ingrained in the Korea way of life read: https://www.wsj.com/articles/charlie-munger-unplugged-11556935195 • Stock at a 6-year low at low teens earnings for a wide moat business; repurchased stock in the 2008 financial crisis

Source: Company filings, industry reports, public reports

3 Sid Choraria: Selected Asia Wide Moat Small Cap Businesses

In times of crisis, strong business franchises in small caps, which are likely to be around for few decades and those that have strong brands and balance sheets at wonderful prices is key

Company	Country	M cap	EV	Niche	Why is it worth your attention ?
Central Depository Services (CDSL) 	India 	\$300mm	\$180mm	Depository / Capital markets	<ul style="list-style-type: none"> Invisible toll road and a play on Indian capital markets due to depository services to corporates, capital market intermediaries, insurance companies, exchanges, investors Rule of 60: High operating margins of over 60% and profitable revenue growth. CDSL has increased its market share to ~50% ; Oligopoly Predictable 6-7% free cash growing yield; diversified revenue stream from issuer charges, transaction, IPO/corporate action, online data, etc 40% cash and long term investments on balance sheet provide downside protection in current crisis
Golden Friends (4506) 	Taiwan 	\$330mm	\$270mm	Elevator	<ul style="list-style-type: none"> Leading Taiwan company: elevator, escalator, moving walks, maintenance, recurring business. Tallest building in TW (world's tallest 2004-10), world's fastest elevator Defensive small cap in crisis. 18 year of positive cash flow and net profit Bargain valuation: 10-12% free cash yield, 20% of market cap in cash Significant repurchase during financial crisis a positive sign
Binggrae (005180) 	South Korea 	\$390mm	\$140mm	Food products	<ul style="list-style-type: none"> Banana milk beverage and other popular products that are ingrained in the culture of South Korean lives 15 year track record of revenue growth and positive cash flow. Bargain valuation: 20-25% free cash yield; 67% of market cap in cash pile lazy balance sheet. Distributed 40% of FCF in dividends and repurchases; repurchased stock in the financial crisis
Thien Long (TLG) 	Vietnam 	\$100mm	\$78mm	Office supplies	<ul style="list-style-type: none"> Leading Vietnam stationery brand in writing instruments, office, school, art supplies. 60% of domestic market share Trades at a reasonable 7x earnings ex cash ; 20% market cap in cash

Source: Company filings, industry reports, public reports

Thank you