

Motiwala Capital

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Disclaimer

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More information: www.adviserinfo.sec.gov
www.motiwalacapital.com

Motiwala Capital LLC

- Founded in Dec 2010
- Registered Investment Advisor (RIA) – Fiduciary duty to serve in clients' interests
- Manage separate investment accounts
- Managing clients capital since April 2011
- Assets under management : ~\$3.8million (3/22/2014)

What do we do?

- Manage portfolio made up of individual stocks
- Bottom up stock picking
- Fundamental Analysis
- Long only
- All market cap
- Can invest internationally

What we don't do?

- We do NOT engage in the following activities
 - Financial Planning
 - Selling financial products
 - Forex / commodity / futures trading
 - Day Trading

Investment Philosophy

- Buying a share is part ownership of a business
- Value oriented, Bottom-up investing
- Buy good businesses at bargain prices
- Avoid leverage and shorting
- Practice discipline and patience
- Always insist on a margin of safety

Performance

Year	Motiwala Capital	S&P 500
2011 (3/14/2011)	4.9%	-2.0%
2012	20.3%	16%
2013	33.2%	31.9%

- Past performance is not a guarantee of future performance
- Motiwala Capital performance is computed on a before-tax time weighted return basis and is net of all management fees and brokerage costs
- These are unaudited numbers

2013 Performance

- Winners
 - Conrad Industries (120%)
 - Western Digital (100%)
 - Vodafone (56%)
 - Microsoft (40%)
 - Apple (40%)
 - Lear (40%)
 - Microcap A (40%)
 - Microcap B (76%)

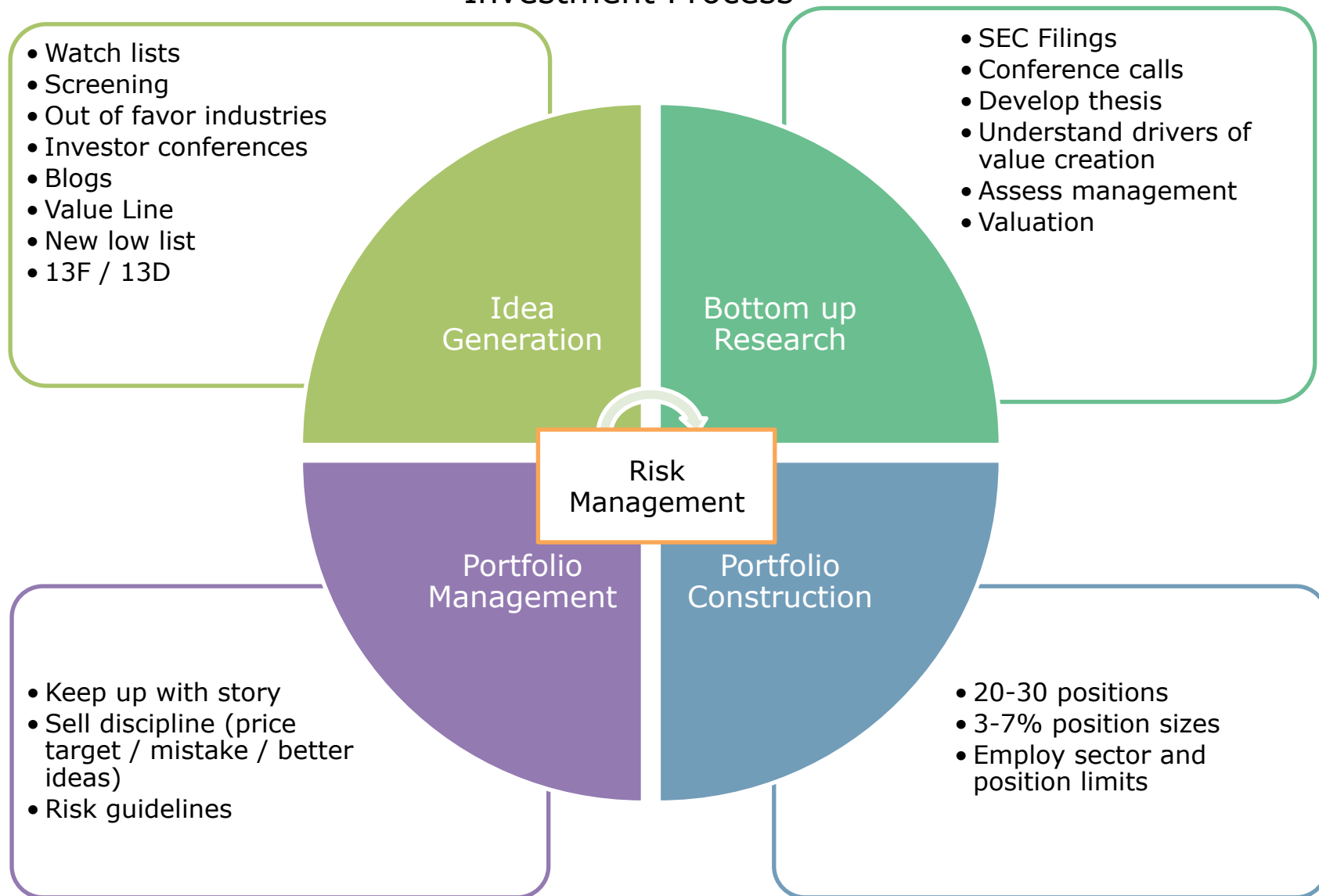
2013 Performance

- Losers
 - Blackberry (-25%): misguided sum of parts followed by cancelled take over.
 - Cooper Tyre (-25%) : merger fell through

3 factors

- Business
 - strong balance sheet, high returns on capital and generates free cash flow
- Management
 - Management skills
 - Capital Allocation
 - Skin in the game
 - Ethical and honest
- Price
 - Discount to my estimate of fair value

Investment Process



Generals

- Undervalued stocks.
- Investment time frame: 2-3 years.
- Profitable businesses with solid balance sheet, stable free cash flow, shareholder friendly management that can be purchased for a bargain price
- Examples:
 - Microsoft
 - Western Digital
 - Vodafone

Special Situations

- Event driven investments.
- Investment outcome depends on the outcome of the event rather than market levels and improvement in earnings and P/E multiple
- Some types: Mergers, Spinoff, tender offers
- Investment time frame: 1- 12 months
- Examples:
 - WebMD tender offer
 - Motorola Mobility acquisition by Google
 - Vivendi's sale of non-core businesses

Past example: Conrad Industries

- How found the idea
 - Via a blog
- What was the thesis
 - cheap, cheap, very cheap
 - Market cap: \$80 million, cash : \$30 million, Enterprise Value (EV): \$50 million, Net Income : \$12 million
- Outcome
 - Stock has tripled from first purchase including special dividends. We still own and is our largest position

Why did others ignore Conrad?

- Too small
- Too illiquid (few thousand shares trade daily)
- Insider controlled
- Trades on pink sheets
- Cyclical
- Perception of commodity manufacturing

Conrad 5 year stock chart

Conrad Industries, Inc. (OTCMKTS:CNRD)

39.25 0.00 (0.00%)

Mar 21 - Close

OTCMKTS data delayed by 15 mins - Disclaimer

Currency in USD

Range	39.25 - 39.25	Div/yield	2.00
52 week	22.22 - 40.97	EPS	4.44
Open	39.25	Shares	7.29M
Vol / Avg	162.00/5,047.00	Beta	0.61
Mkt cap	286.23M	Inst. own	2%
P/E	8.85		



Past example: Western Digital

- How found the idea
 - Via a stock screen
- What was the thesis
 - Market Cap: \$8.3 billion, Net cash \$2.9 billion, EV \$5.4 b
 - FCF \$760 million. $EV/FCF = 7x$, Stock price \$35
 - Investors felt disk drives would be extinct, business was low quality, cyclical
- What was the outcome
 - Industry consolidation.
 - Market cap \$20 billion, Net cash \$2.5b, EV \$17.5b
 - FCF \$2billion. Stock price \$86

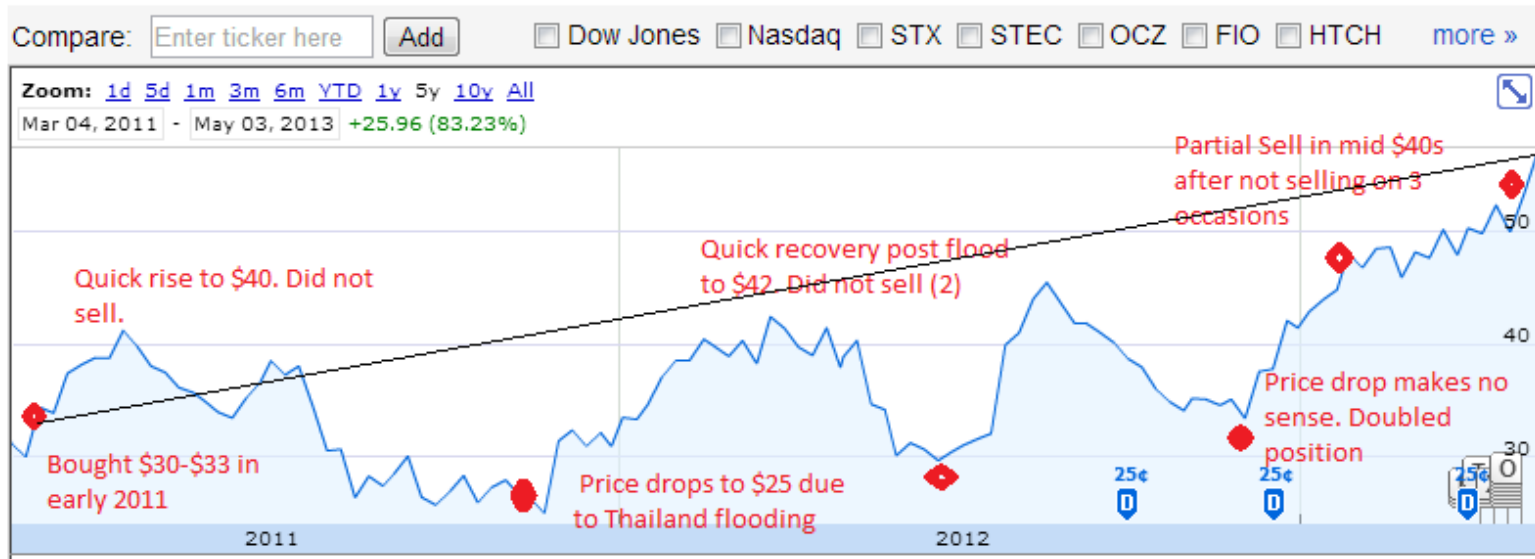
Volatility can be your friend

Western Digital Corp. (NASDAQ:WDC)

57.15 +0.49 (0.86%)

May 3 - Close
NASDAQ real-time data - Disclaimer
Currency in USD

Range	56.79 - 57.98	Div/yield	0.25/1.75
52 week	28.31 - 57.98	EPS	7.88
Open	57.30	Shares	240.67M
Vol / Avg.	3.00M/3.04M	Beta	1.49
Mkt cap	13.75B	Inst. own	87%
P/E	7.25		



Past example: Vodafone

- How found the idea
 - A fellow investor owned the stock
- What was the thesis
 - VOD stock price : \$26
 - Market Cap: \$140 billion.
 - VOD owned 45% of Verizon wireless (VZW) which was not reflected in the financials and by itself could be worth ~\$100 billion
- What was the outcome
 - Verizon bought 45% stake of VZW from VOD for \$130 billion

Investing takes patience



VOD stock chart 2011-2013

Vivendi – an event driven investment

- How found the idea
 - WSJ – Vivendi announced sale of its stake in Activision in July 2013
- What was the thesis
 - Large media and telecom conglomerate was cheaper than the sum of its individual parts. Upside of 30%
 - Vivendi would unlock value by selling / spinning of non-core business units. Media businesses produce solid free cash flow.
- What was the outcome
 - Vivendi sold stake in Activision, sold Maroc Telecom, reduced debt.
 - Stock appreciated ~30% and we sold out.

Corporate actions often unlock value

Vivendi SA-ADR (OTCMKTS:VIVHY)

27.01 -0.27 (-0.99%)

Mar 21 - Close

OTCMKTS data delayed by 15 mins - Disclaimer

Currency in USD

Range 26.95 - 27.29
 52 week 18.33 - 29.39
 Open 27.24
 Vol / Avg. 17,404.00/44,458.00
 Mkt cap 36.18B
 P/E -

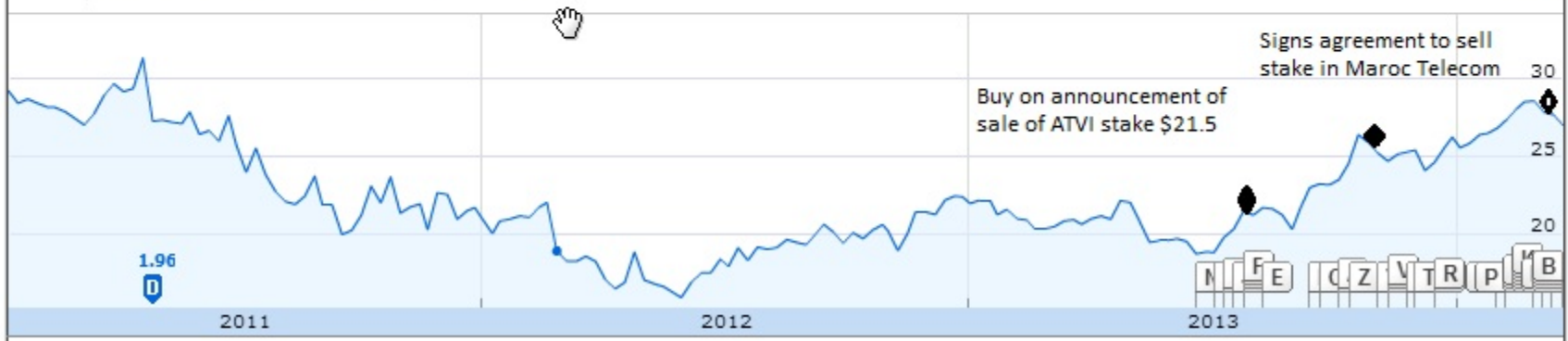
Div/yield -/3.82
 EPS -
 Shares -
 Beta 0.95
 Inst. own -

8+1 5

Compare: DIS ORAN TEF SNE AMX PT NTES TCEHY OIBR

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [All](#)

Mar 02, 2012 Price: 18.95 Vol: 381.49k



Price to Value

- For every stock we purchase, we estimate a range of fair values
- We compute a ratio of current market price (price P) to estimated value (value V)
- Example: Oracle stock price \$37, Oracle estimated value \$45. $P/V = 37/45 = 0.82$
- Currently weighted Price to value on the invested portfolio 0.82

Portfolio metrics

- Weighted average market cap = \$58 b
- Weighted average P/E = 10.5x
- Dividend yield = 2.35%
- Weighted P/V = 0.82
- Portfolio split: 6 micro cap, 6 small cap, 9 large caps

New purchase: Outerwall (OUTR)

– How found the idea

- Announcement of a 20% share repurchase via tender offer

– What is the thesis

- Stats: 20.3m shares, Stock: \$66, Market cap: \$1340 million. Net Debt: \$800m, EV: \$2140m. FCF: \$200-\$240m
- Redbox DVD rental business perceived to be in rapid decline.
- Value proposition in \$1.5 new movie BluRay rentals.
- Two core cash generating businesses. Investing in one new business.
- Capital allocation: 75-100% FCF to be paid out.
- Activist investor helped cut risky investments

Buy based on valuation

Outerwall Inc (NASDAQ:OUTR)

66.76 -0.04 (-0.06%)

Mar 21 - Close

NASDAQ real-time data - Disclaimer

Currency in USD

Range	66.25 - 67.47	Div/yield	-
52 week	46.25 - 74.30	EPS	7.33
Open	66.89	Shares	25.40M
Vol / Avg	576,736.00/1.12M	Beta	0.88
Mkt cap	1.70B	Inst. own	126%
P/E	9.11		



Not averse to stocks that have had a recent run up. Fundamentals + Valuation matters

Current position: Oracle

- How found the idea
 - Stock declined post earnings in 2013
- What is the thesis
 - Market Cap: \$147 billion, Net cash \$15 billion
 - EV \$132 b, FCF \$13.5 billion. Stock price \$32
 - High quality business, stable recurring revenue, low capital intensity, run by founder CEO at 10x FCF.
 - Capital allocation: Aggressive share buybacks and increasing dividends in addition to ongoing m/a

A common question....

(Q) Stock market is at all time highs. Is it a good time to invest in stocks?

- I cannot time the market
- I do not invest in the entire market or index.
- I invest in individual businesses that I estimate to be attractive based on their fundamentals and valuations.
- At most times, some businesses are out of favor.

Two recently beaten down stocks



Some of our recent purchases

- Two oil service companies with strong competitive positions with dividend yields of 8% and 10%.
- A business owning search distribution, tax filing software business and online retailer at 10x FCF
- An asset manager at 10x P/E
- Automated kiosk businesses at 7x FCF
- Media company at 8x P/E and 8% dividend yield

Why invest with Us

- Disciplined investment process
- Ability to exploit inefficiencies of market across capitalization and time horizon
- Transparency – clients can see all positions and account value at any time
- Skin in the game - We invest along with you in the same investments

Thank You

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Appendix

Account Process

Apply

- Motiwala Capital emails a link to open broker account
- Client completes online broker account application
- Broker approves client application. Account in clients' name. SIPC insurance of \$0.5 million.

Fund

- Client funds his account (check/ACH/Wire/Account transfer)
- Funds are available to invest.
- Motiwala Capital has access to trade the account. Motiwala Capital cannot withdraw funds.

Invest

- Motiwala Capital invests clients account with discretionary control, following the described philosophy.
- All accounts are invested in a similar fashion and not customized for each client.

Fees

- Management fees are calculated as a % of the account value at the end of each quarter (0.375%)
- Fees are submitted to the broker. Broker verifies fee agreement.
- Fees are automatically withdrawn from the clients' account.

Trading

- New investments are made in all accounts at the same time in a block trade
- New accounts are invested over a few months depending on the attractiveness of existing positions and new investments
- Special situations have high turnover as they essentially shorter term investments
- Generals have lower turnover

Types of accounts

- Regular Individual or Joint Taxable account
- IRA accounts (Roth, Traditional, Rollover from 401(K), SEP)
- Trust
- Business account (LLC etc.)

Our Fees

- Fees charged at the end of each quarter as a % of account value. Example: An account with average balance of \$25,000 will incur \$375 in annual fees (i.e. 1.5%/year)
- Fees are transparent
- Fees could be tax deductible
- No fees to open/close account.
- No commissions. No products to sell
- Brokerage charges separate

Communication

- [Quarterly letters](#)
- Blog - [Subscribe](#)
- Trade confirmations
- Account statements
- Performance reports

Importance of downside protection

Initial Percentage Loss	Required gain to break even
10%	11%
20%	25%
33%	50%
50%	100%

Magic of Compounding

Years of Investment	7% return	12% return	18% return
20	4 times	10 times	27 times
40	15 times	93 times	750 times
60	58 times	898 times	20,555 times

Example : \$100,000 investment made today will be \$1 million in 20 years if investments compound annually at 12% and \$9.3 million if invested for 40 years.

A 'meagre' rate of 7% turns \$100,000 into \$1.5 million in 40 years.

Keys:

- Invest for the long term.
- Stay healthy and Live Longer!!!
- Start EARLY! Invest in your 20s and 30s regularly.
- Save money!!! 10\$ could turn into \$930 in 40 years!!! (@12%)

Why we don't own 'hot' stocks

Company	Market Cap	Net Income	P/E
Twitter	\$28 billion	-\$645 million	n/a
Tesla	\$28 billion	-\$74 million	n/a
Facebook	\$171 billion	\$1500 million	114
3D Systems	\$6 billion	\$ 44 million	136
Netflix	\$24 billion	\$112 million	214
Amazon	\$165 billion	\$274 million	600
LinkedIn	\$24 billion	\$27 million	888

Market Cap is from Yahoo finance
Net Income pulled from recent 10-K filing

Contrast with these businesses

Company	Market Cap	Net Income	P/E
Franklin Resources	\$33 billion	\$2.2 billion	15
Apple	\$475 billion	\$37 billion	13
Microsoft	\$333 billion	\$23 billion	15
Vodafone	\$100 billion	\$8 billion	12.5
Oracle	\$168 billion	\$11 billion	15
National Oilwell	\$32 billion	\$2.3 billion	14
Prosafe	\$1.8 billion	\$200 million	9

Market Cap is from Yahoo finance
Net Income pulled from recent 10-K filing