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16th Annual International Value Investing Seminar, Trani, Italy

Why Japan and why now?

Japan Aviation Electronics (6807 JT)

Charlie and the mental models for life

Christoph Hilfiker

Continuity and Performance

770 years experience in financial markets - for the clients of the LLB Group



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- ◆ **Why Japan and why now?**
- ◆ **Japan Aviation Electronics (6807 JT)**
- ◆ **Charlie and the mental models for life**

The two most important things in investing (and quite difficult sometimes)

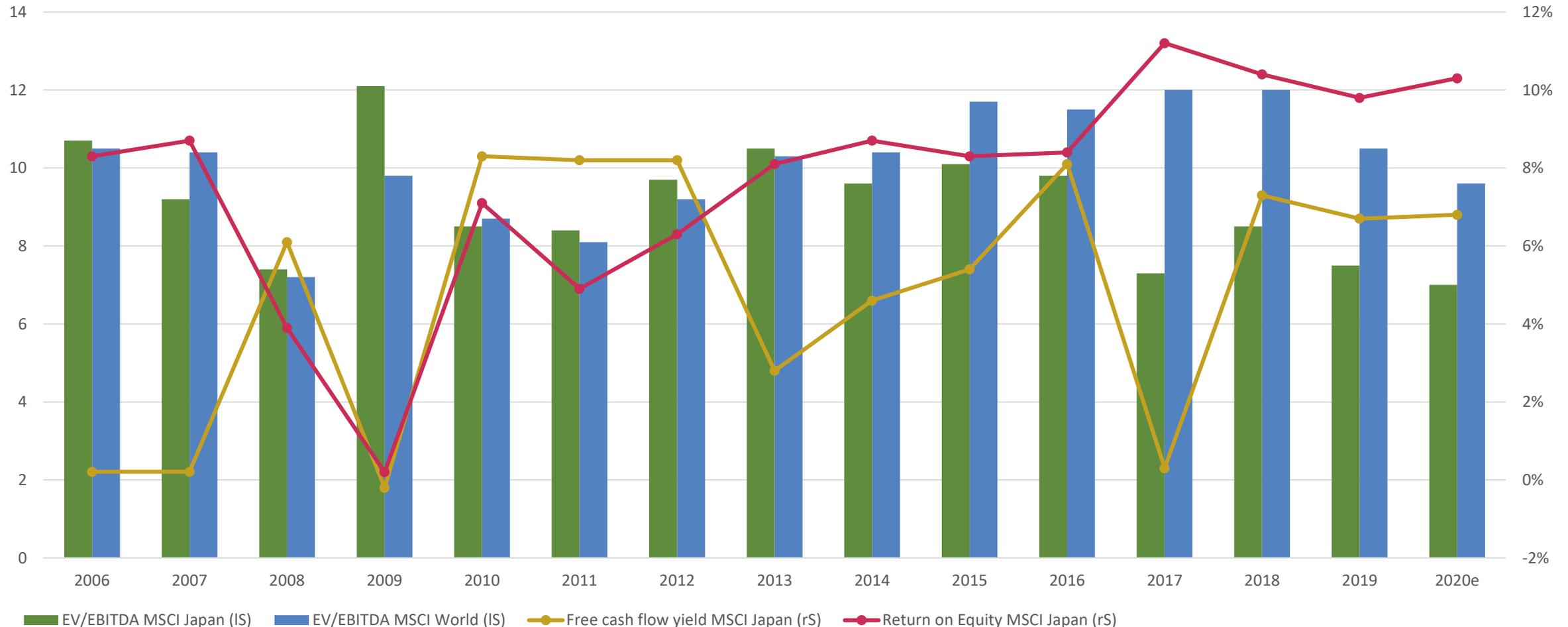
"I'm convinced that **everything that is important in investing is counterintuitive, and everything that is obvious is wrong.**"

"Unconventional behaviour is the only road to superior investment results, but it isn't for everyone. **Successful investing requires the ability to look wrong for a while and survive some mistakes.**"

Howard Marks, Dare to be great II, 2006

With an EV/EBITDA of 7.1, Japan has never been cheaper (with a discount of 30% to the MSCI World), RoE more than 10%, FCFY almost 7%

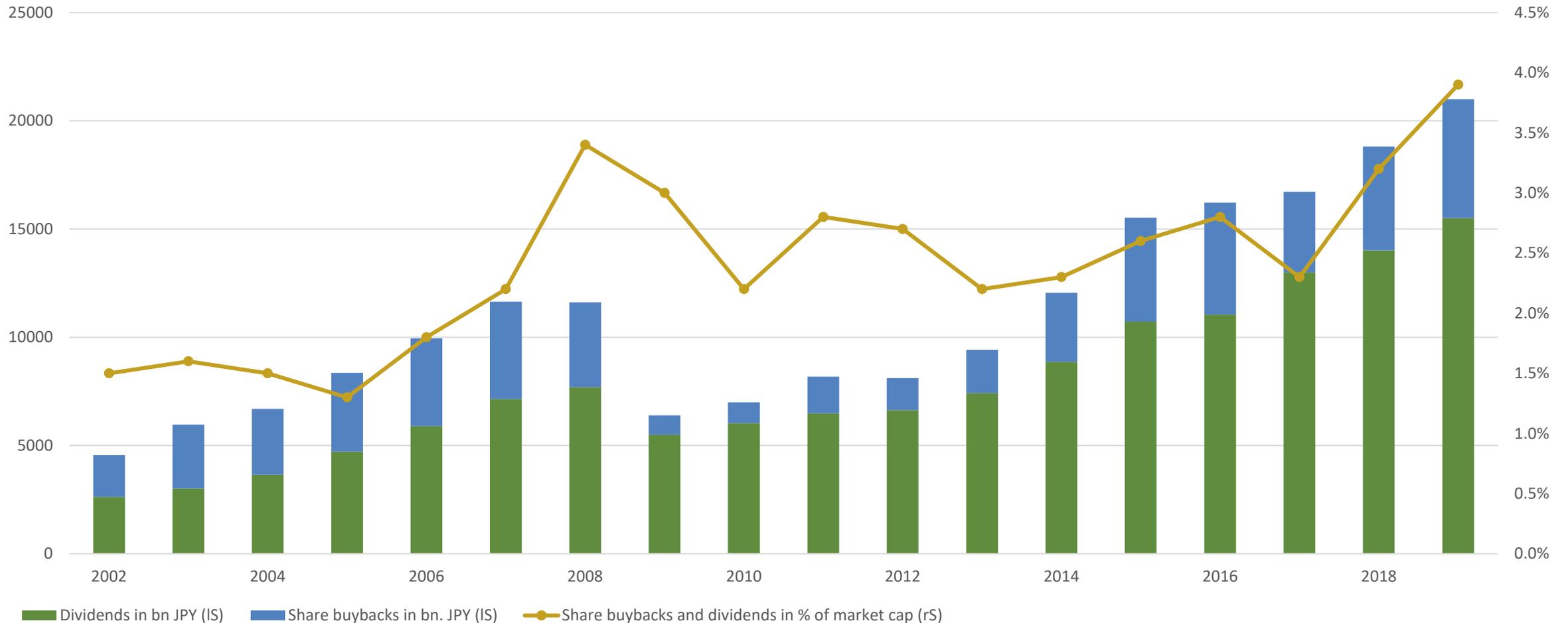
EV/EBITDA, Return on Equity and free cash flow yield



Source: ASMEMI, Bloomberg

Increased shareholder friendliness and a quite better corporate governance

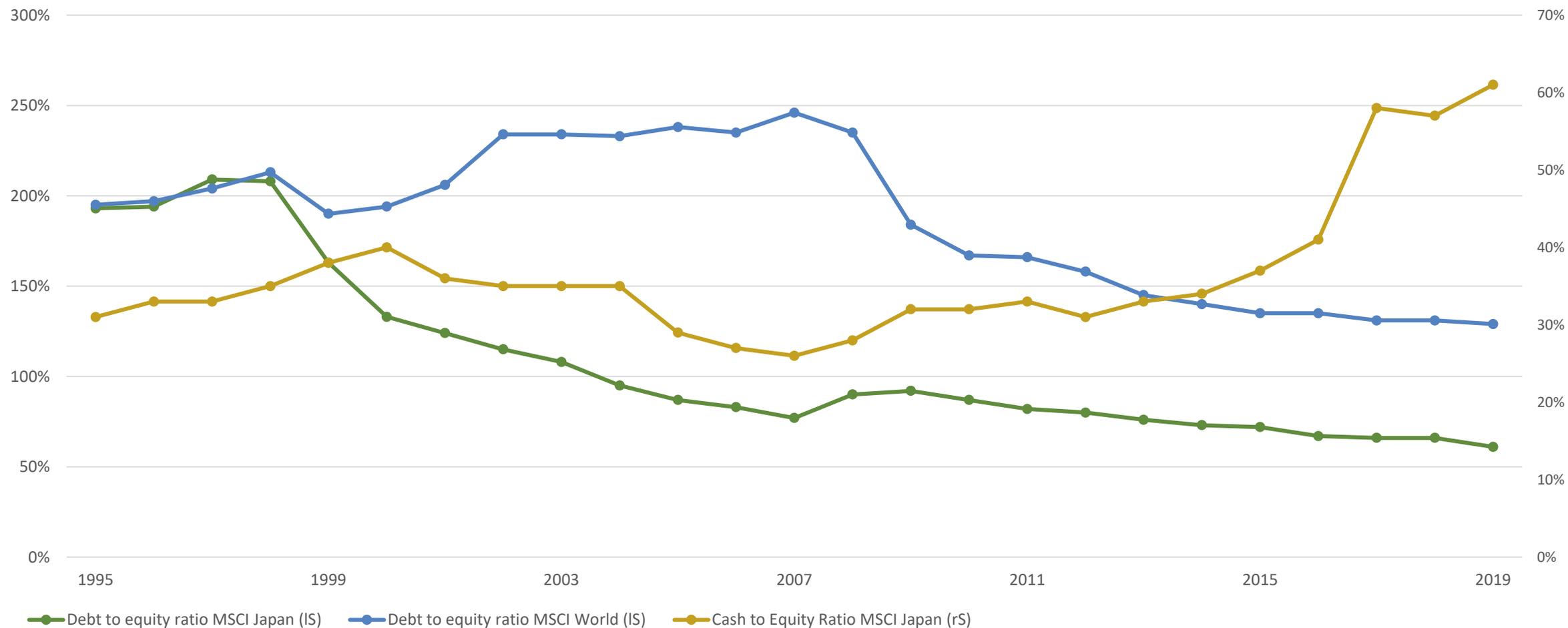
Share buybacks and dividends, both at almost 4% in relation to the market cap



Source: ASMEMI, Bloomberg

A low gearing and plenty of cash

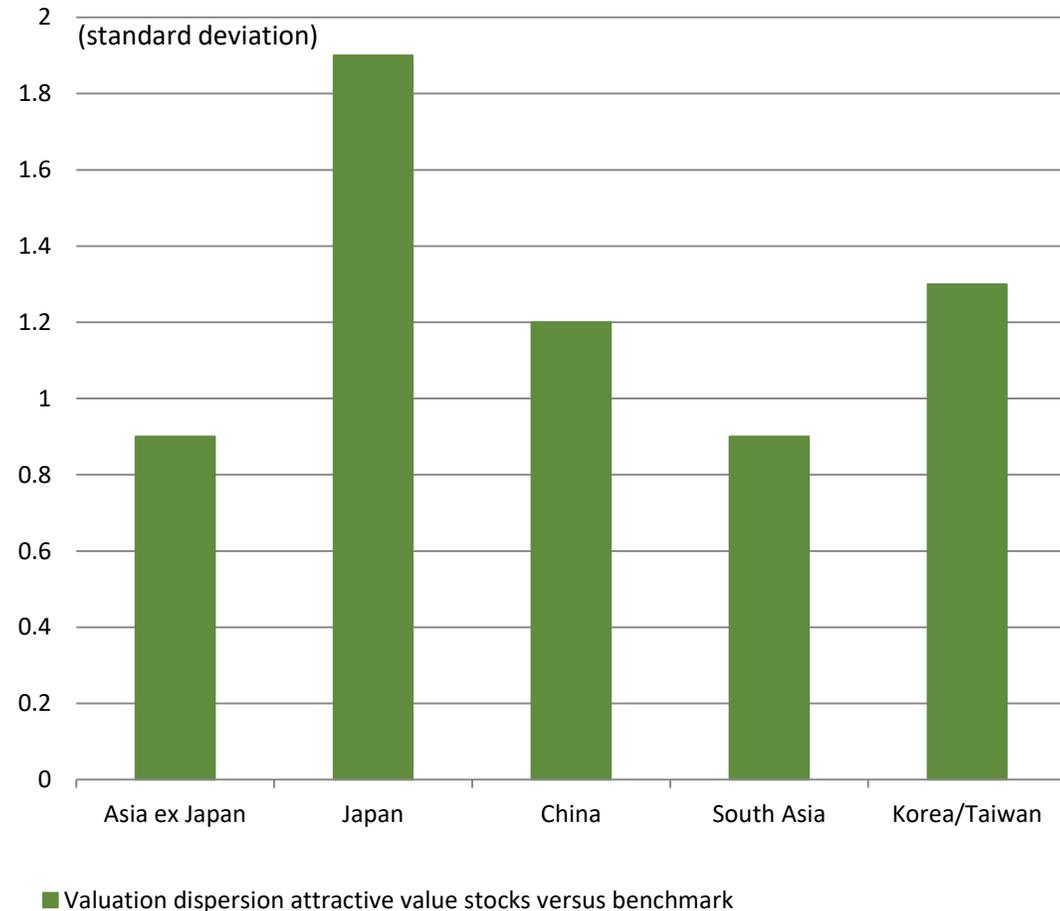
Debt to Equity and Cash to Equity Ratio



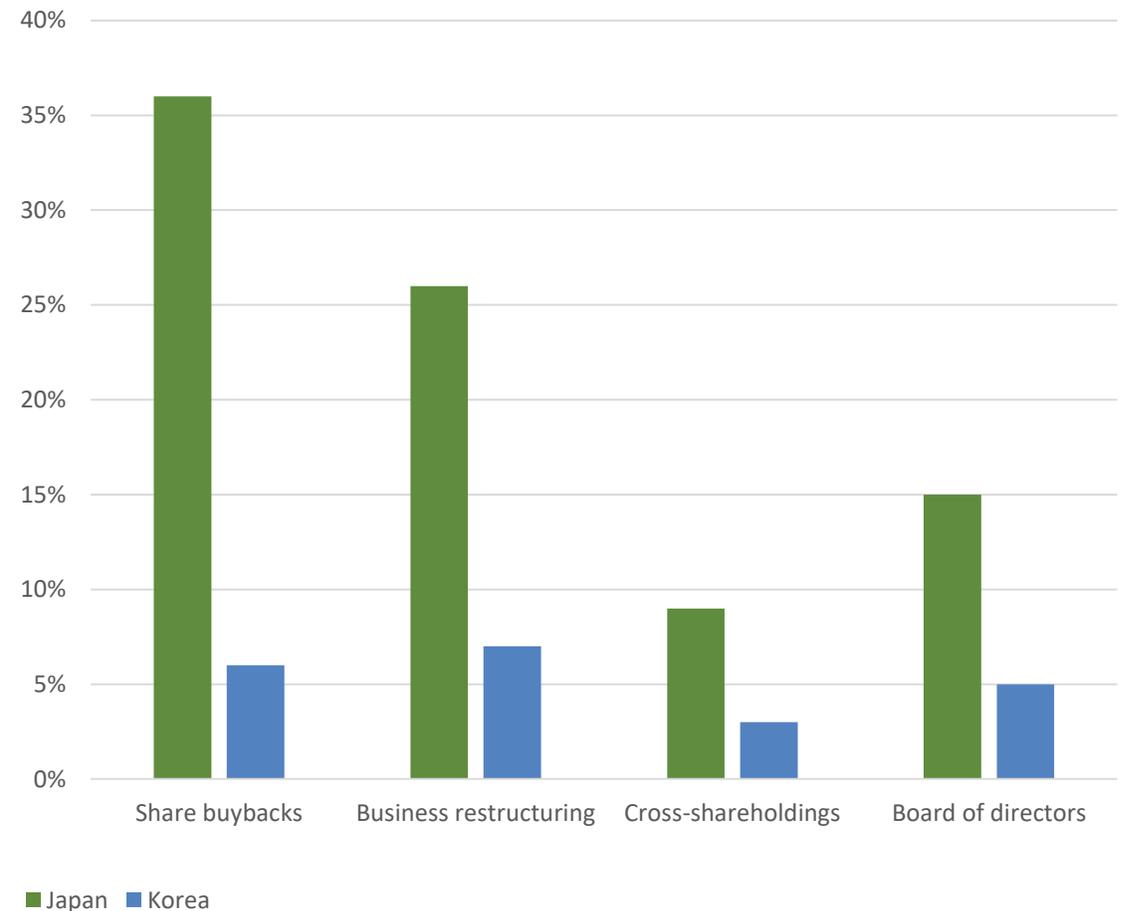
Source: ASMEMI, Bloomberg

An attractive place for active investing and furthermore, with lots of corporate reforms

Valuation dispersion of almost 2 standard deviations



Identified corporate reform measures

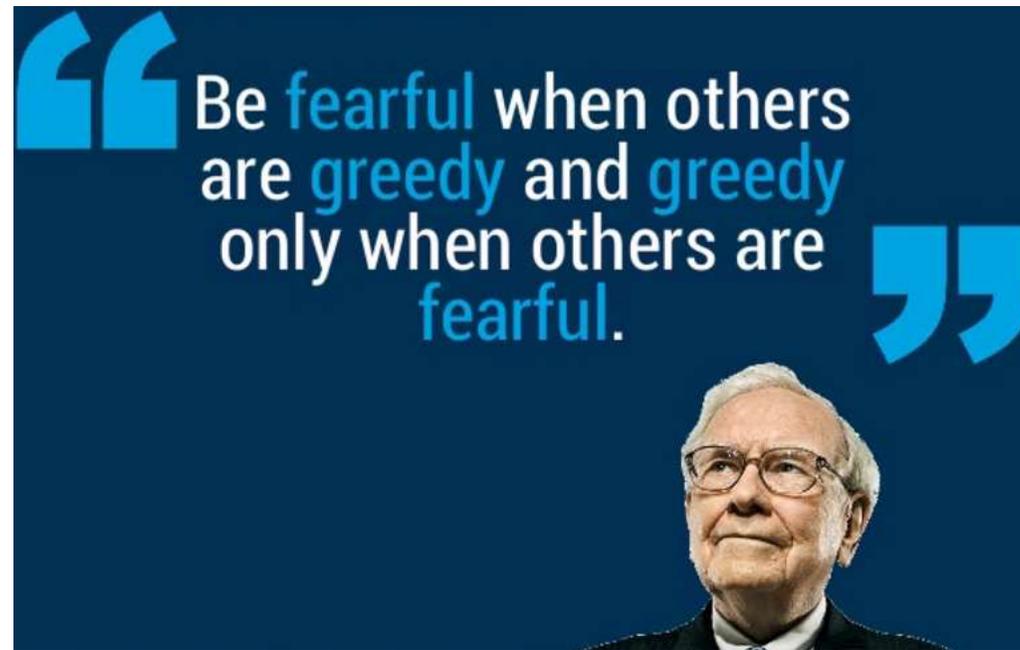


Source: ASMEMI, Empirical Research

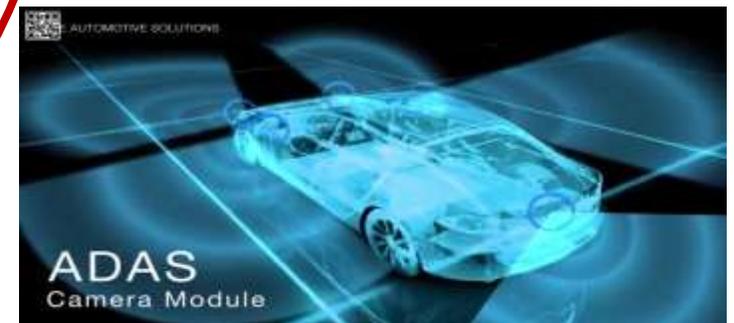
Source: ASMEMI, Morgan Stanley

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Regarding the trade conflict, be greedy



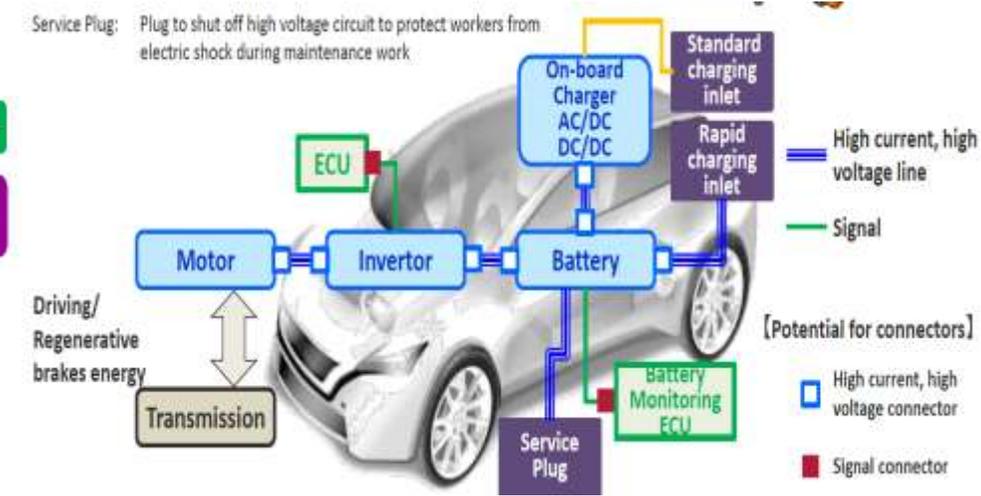
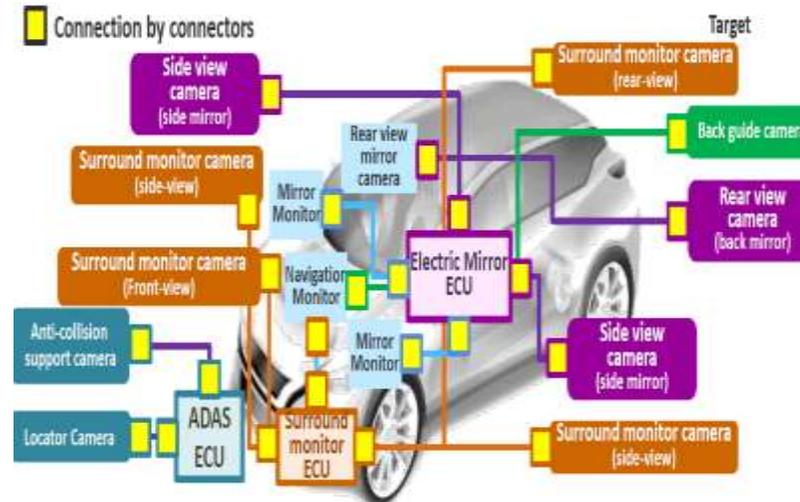
JAE develops various types of connectors for wide range of application, especially for automotive/electric vehicles and mobile devices



A growing importance of the automotive business

◆ Big profiteer from

- ◆ ADAS,
- ◆ Car electrification
- ◆ Digital networking
- ◆ Car infotainment

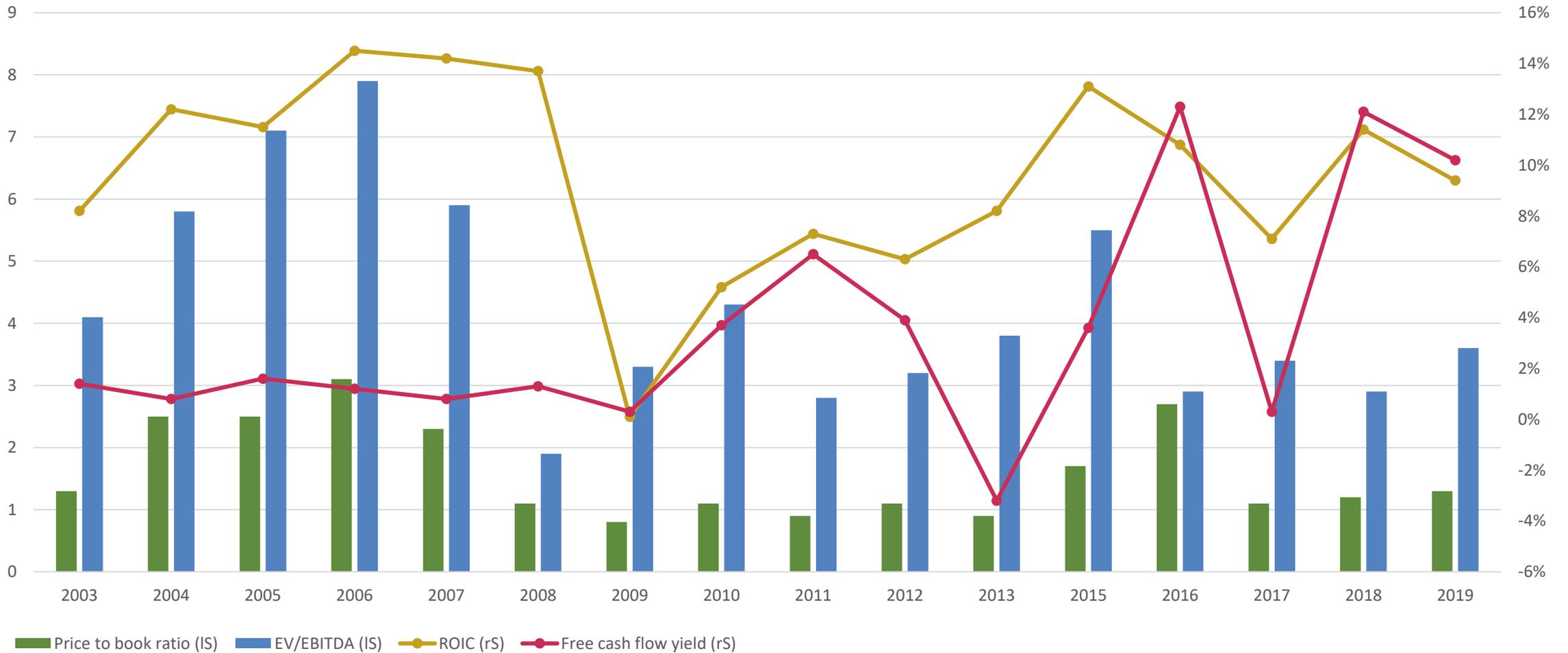


◆ Some encouraging news from the latest quarter results

- ◆ Connector installation in cars is steadily increasing.
- ◆ The Chinese smartphone customer base is growing and the number of connector installations is increasing.
- ◆ JAE is working to improve profits by moving component supply in-house and implementing production and work process reforms.

These numbers are screaming

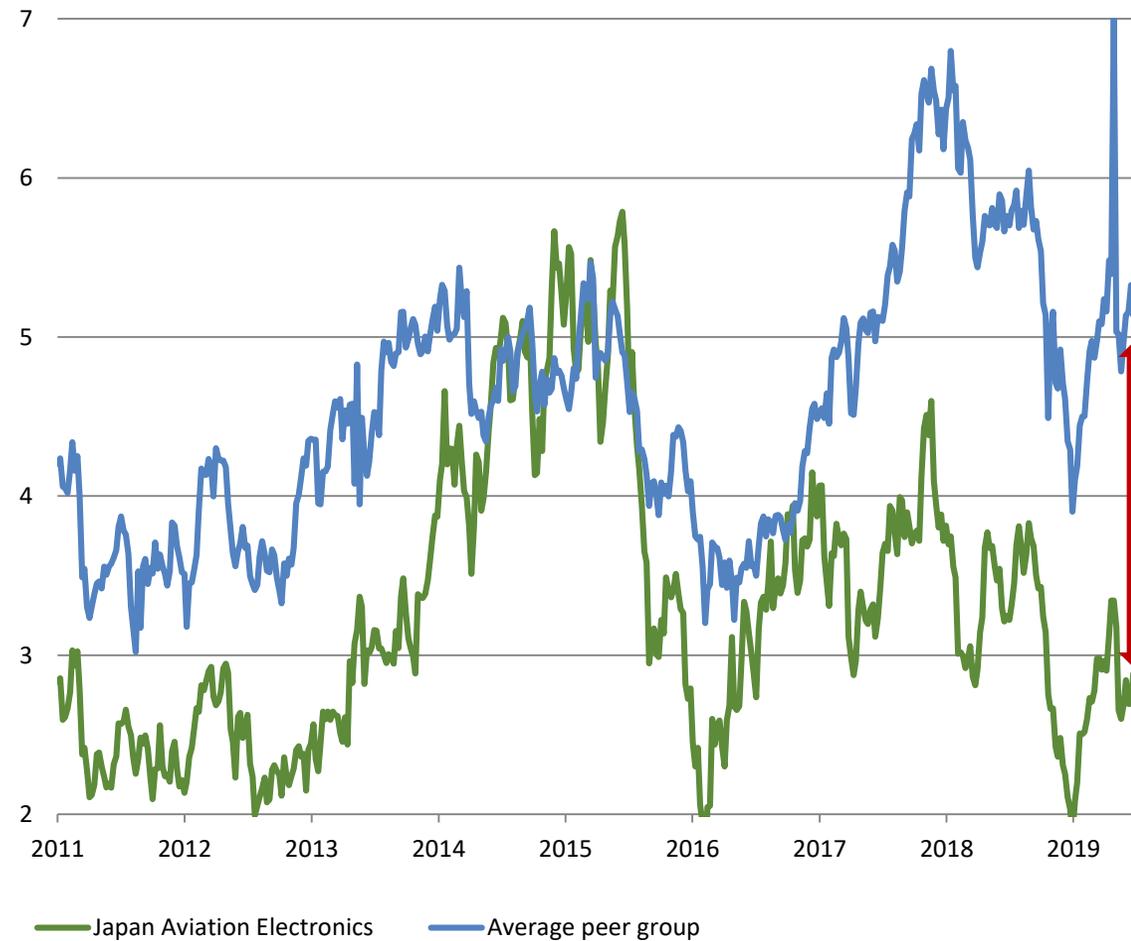
EV/EBITDA at 3.5, with a ROIC of 11.3% and a free cash flow yield of 10.5 %



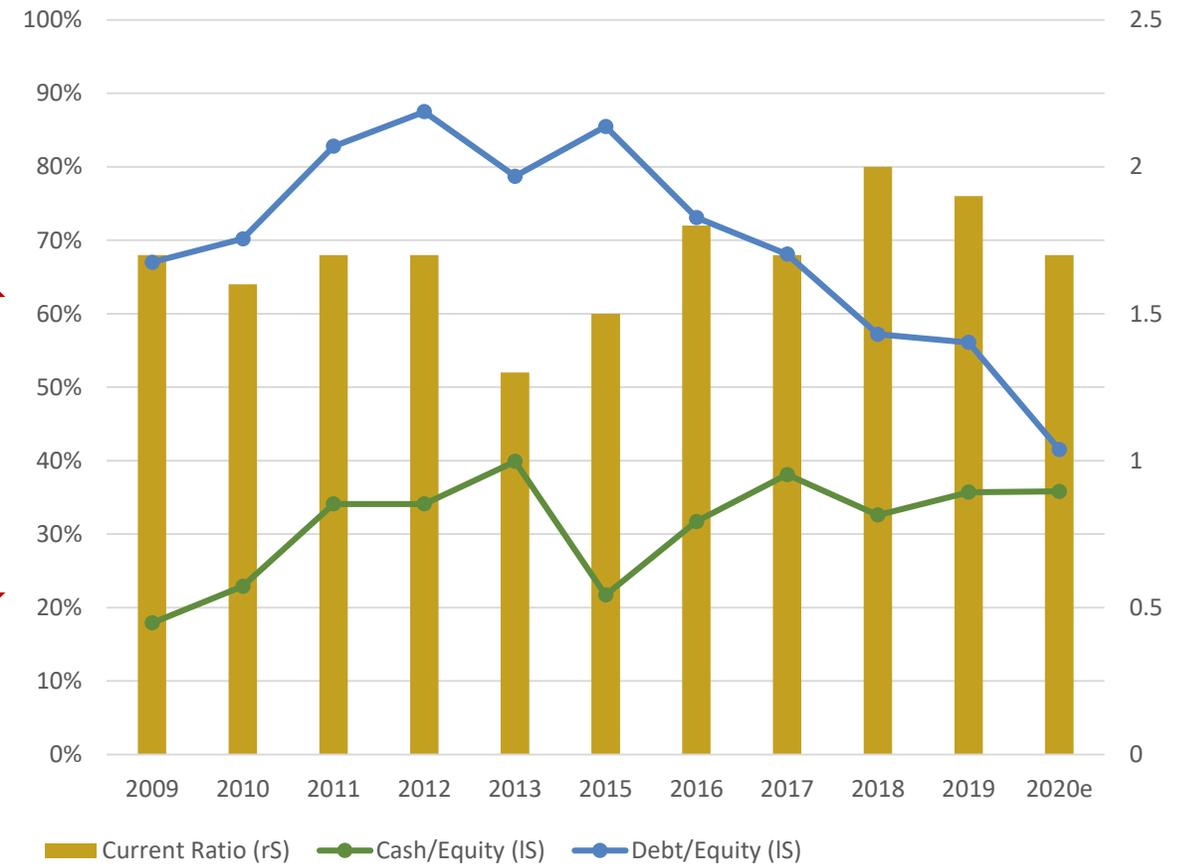
Source: ASMEMI, Bloomberg

The way it should be

EV/EBITDA: A 45% discount to the peer group



In an efficient way, with low gearing and enough cash

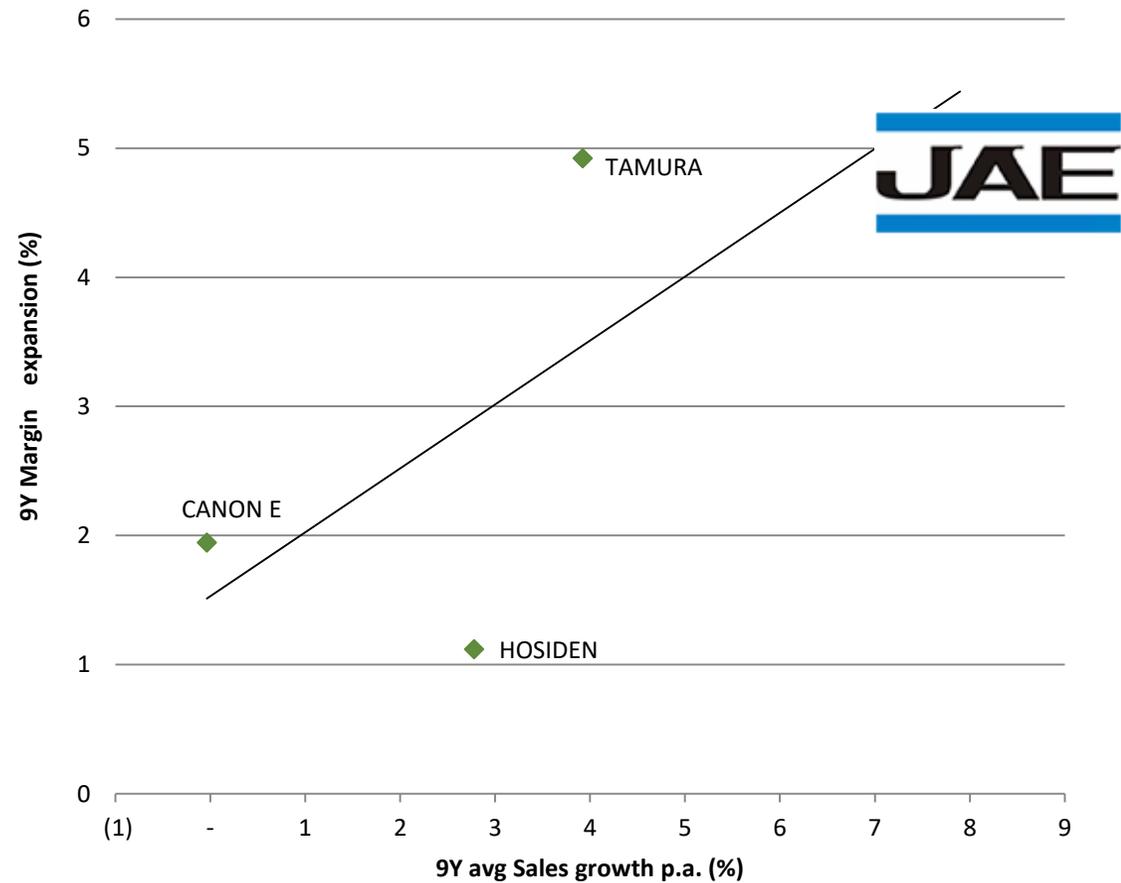


Source: ASMEMI, Bloomberg

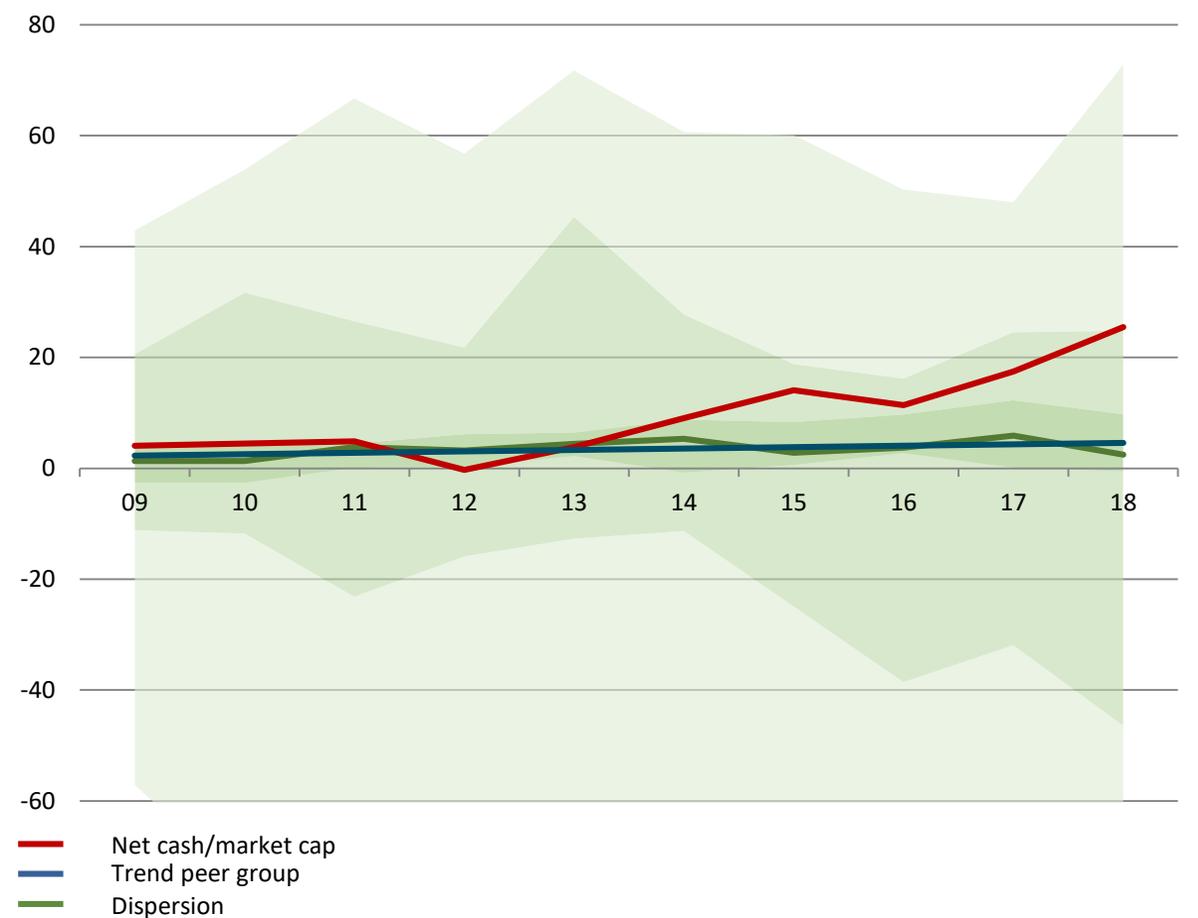
Source: ASMEMI, Bloomberg

Definitely not the "Old Japan Corp."

Margin expansion versus sales growth



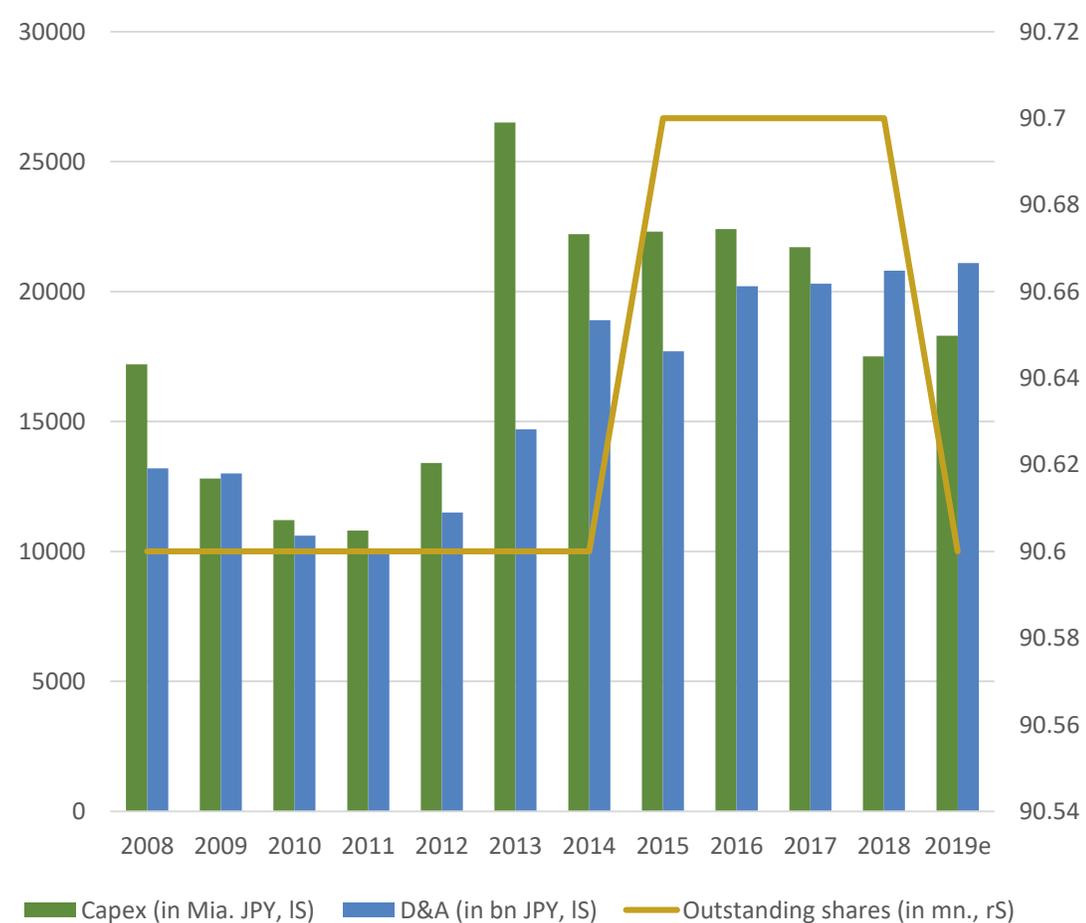
Net cash/market cap (%) – a cash machine



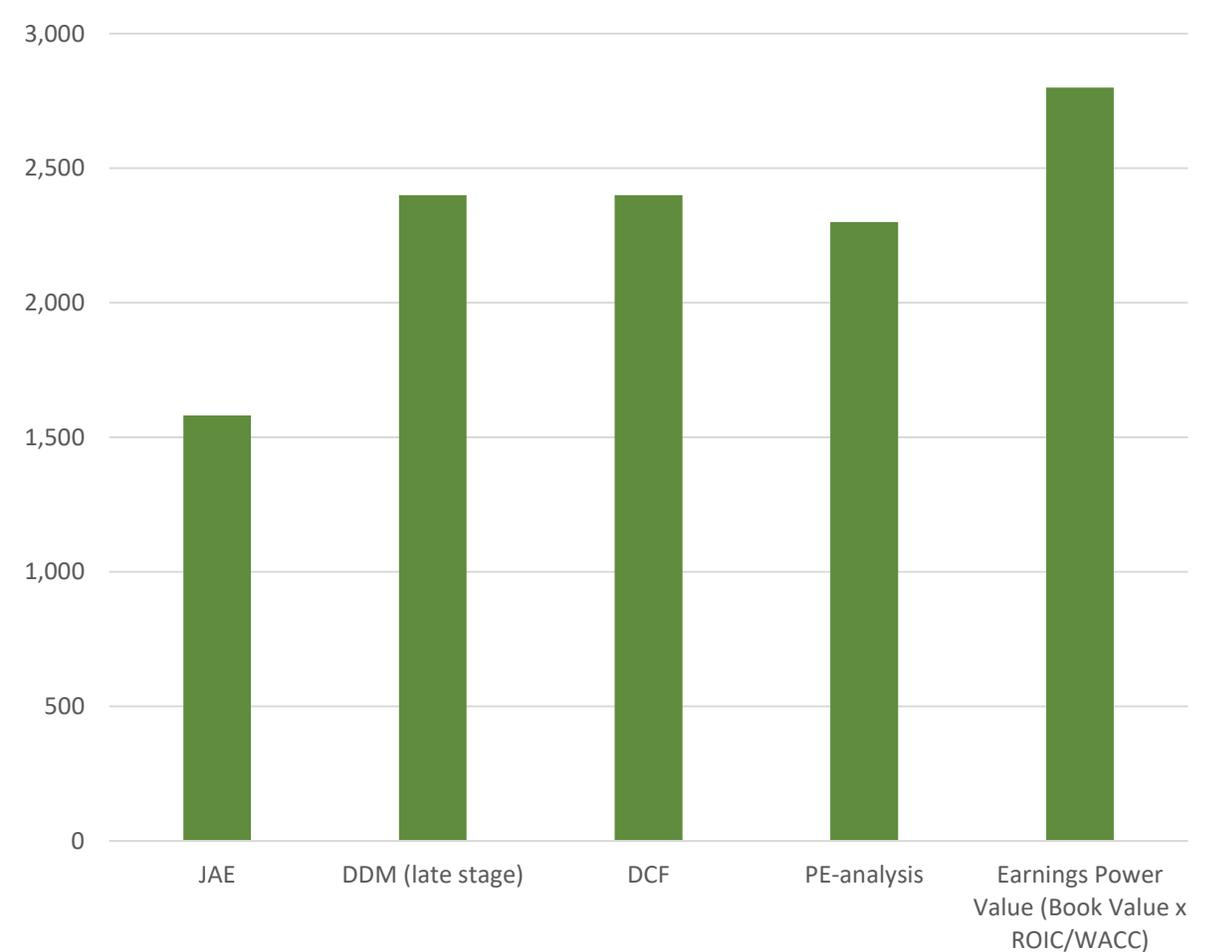
Source ASMEMI, Bloomberg

Not a capital intensive business and quite a big undervaluation

A low capital intensity and no dilution



Different valuation models



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A book not only for being a better investor but for a better life as well

The Complete Investor

CHARLIE MUNGER

THE COMPLETE INVESTOR



TREN GRIFFIN

 Columbia Business School
Publishing

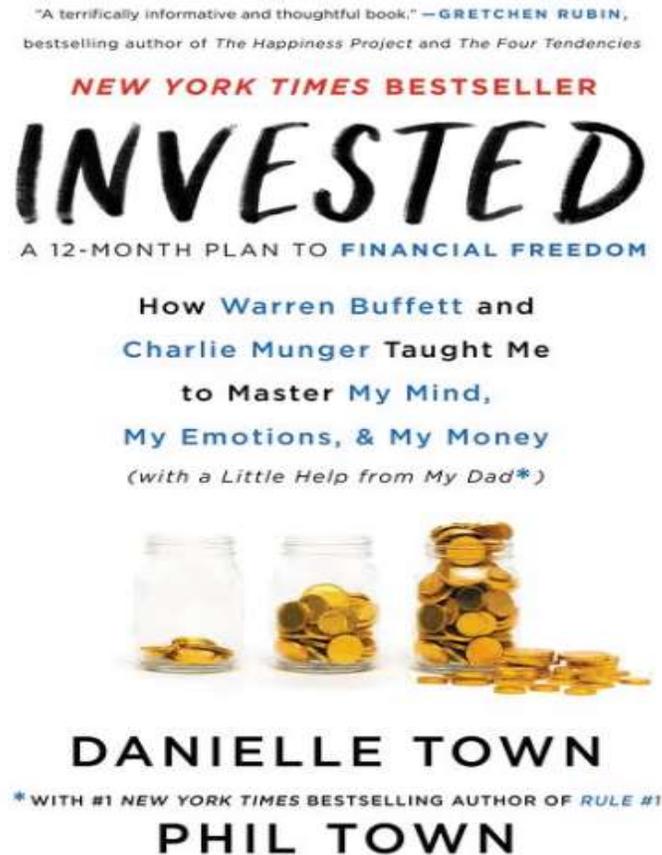
A lot of wise advises

- ◆ This book is not simply about investing. It is about cultivating mental models for your whole life! (especially for your investments);
- ◆ Avoid hubris (a wrong character can be the death for your investments);
- ◆ I firmly believe that the best lessons in life are the simple ones.
- ◆ Be prepared and patient, but aggressive when it is time;
- ◆ Be intellectually humble (don't try to foresee the future, just analyse the facts)
- ◆ Keep learning every day!

Source: Charlie Munger, The Complete Investor

Not finished yet, but very interesting

Invested (Danielle Town)



Why this book

- ◆ Very authentic
- ◆ What is really important in investing
- ◆ Principles to find the right investments
- ◆ Hoarding money is losing money (very important nowadays!)
- ◆ Take the time to really think about your investments

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Further information about our publications, in particular: Summary of the important sources of information, Valuation principles and methods, Explanation of the meaning of the recommendations, List of all recommendations as well, Information on conflicts of interest can be requested at www.llb.li/legal-notes. We are providing this information also free of charge in paper form.

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