

k1 Ventures: A Special Situation Investment

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- Principals and Clients of Lighthouse Advisors Private Limited own shares in k1 Ventures
- No liability is assumed for any losses suffered by anyone due to buying, selling or otherwise trading in k1 shares

Who is Lighthouse Advisors?

- Registered Fund Manager in Singapore
 - Regulated by the Monetary Authority of Singapore
- Founded in October 2008 by Benjamin Koh
- Three-Pronged Investment Strategy
 - “Bargains”
 - “Quality”
 - “Special Situations”

Where is Singapore?

- City-State in Southeast Asia
- Former British colony, independent in 1965
- 5.3m people, 75% ethnic Chinese
- 2012 GDP: USD 240bn
- Regional hub for trade and finance
- Major trading partners:
 - Malaysia, China, EU, USA, Indonesia, South Korea, Japan and Hong Kong

What is k1 Ventures?

- Listed on the Singapore Exchange
 - Last done SGD 0.161 (9 Apr 2013), market cap SGD 341m
- Launched as a technology venture capital fund in Jul 2000
- Now operates as a diversified investment company
 - In *de facto* liquidation since Sep 2007
- Shareholders:
 - 36% Keppel Corp
 - Founding sponsor, Passive
 - 14% Steven Jay Green
 - Chairman & CEO, Executive
 - Appointed in Sep 2001 to turn k1 around
 - 12% BV Investment
 - Owned by the 2 founders of SAFANAD, a private equity firm
 - Entered k1 via private placement @\$0.29 in Jul 2004
 - 38% Public

Major k1 Investments

- Helm Financial (Railcar Leasing)
 - US-based, started 1980, current fleet: 550 loco. / 5,162 railcars
- Knowledge Universe Holdings (Private Education)
 - Started in 1996, 3,000 locations worldwide
 - Pre-school through K-12 (elementary, middle and high school)
- Guggenheim Capital (Financial Services)
 - US\$170b under management
 - Fixed Income, Insurance, Private Equity
- China Grand Auto (Car Dealer)
 - Largest automotive retailer in China (~400 dealerships)
- McMoRan Exploration (Oil & Gas)
 - Exploration and production in the Gulf of Mexico
 - Listed on NYSE (MMR:US), market cap US\$2.7b

Helm Financial – Overview

- US-based railcar leasing, started in 1980
- Bought in Jul 2005 for US\$471m (\$138m cash, \$333m debt)
 - k1 Ventures: 80.1%, US\$110m
 - Helm Management: 19.9%, US\$27m
- Own Fleet: 5,162 railcars, 550 locomotives
- JV Fleet: 8,119 railcars, 79 locomotives, 1,259 autoracks
 - Helm Pacific Leasing (HPL), 50% owned w/Union Pacific
 - Helm Chesapeake (HCLP), 36% owned w/CSX Corp & Diamond Rail Lease Corp (subsidiary of Mitsubishi Corp)
- Ongoing Monetization
 - Sold DM&E (a Helm investment) for US\$65m in FY08
 - US\$30m tax-free distribution from HPL in FY08
 - Debt reduced to SGD 143m as at 31 Dec 2012

Helm's Competitors – GATX Corp.

- Largest US railcar leasing company (GMT:US), market cap US\$2.4b
- US fleet: 109,551 (100% owned) railcars on 31 Dec 2012
- 2012 Q4 conference call on 24 Jan 2013 (**emphasis added**):
 - *Rail North America maintained **strong utilization, achieved lease rate increases and longer terms on renewals**, while the renewal success rate averaged over 80% during the year.*
 - *In the fourth quarter, the **renewal rate change of GATX's Lease Price Index improved to 32.3%**, resulting in the full-year renewal rate change of the LPI of 25.6%, stronger than what we initially anticipated.*
 - *In the coming year, leases on about 22,000 railcars are scheduled for renewal in North America. And **we expect the renewal rate change of the Lease Price Index to be in the same range as the strong 26% experienced in 2012.***

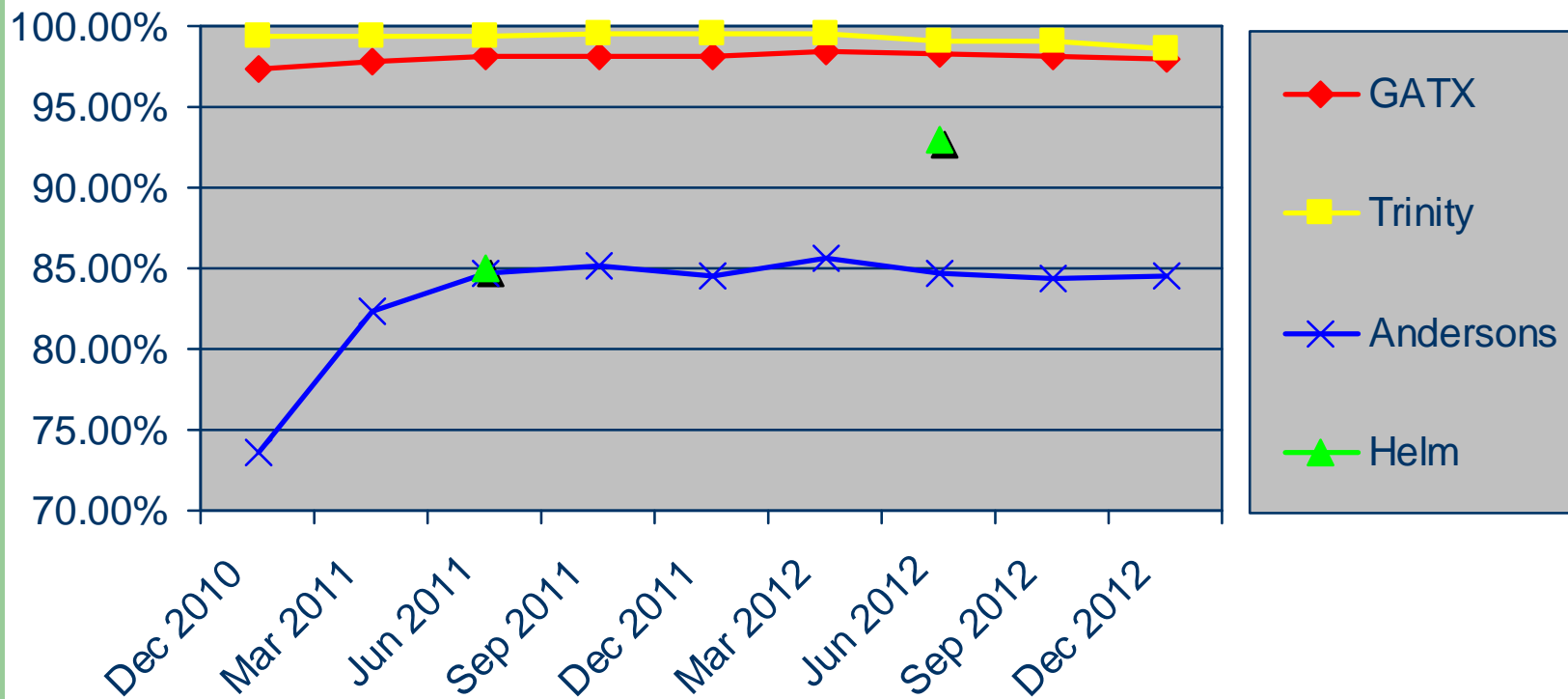
Helm's Competitors – Trinity Industries

- US railcar manufacturer & leasing company (TRN:US), market cap US\$3.3b
- Railcars: 57,000 (100% owned) + 14,455 (via 57% subsidiary) on 31 Dec 2012
- 2012 Q4 conference call on 21 Feb 2013 (**emphasis added**):
 - ***Lease renewal trends for railcars serving the oil, gas, and chemical markets continued to be positive due to extended backlogs and production lead times within the industry.***
 - ***Today, we see a tremendous opportunity to grow our leasing business at a time when we are achieving excellent returns on our leased railcars.***
 - ***We expect to continue to see the benefits of a strong lease pricing environment and an active secondary market supporting lease portfolio sales.***
 - ***Strong debt investor appetite for leased railcar assets is illustrated by the attractive financing we completed in December. Equity investor appetite for leased railcars is also strong, and can provide us with more capacity to grow our lease fleet.***

Helm's Competitors – The Andersons

- Diversified Group (Grain, Ethanol, Rail, Plant Nutrient, Turf & Specialty, Retail)
- Listed on NASDAQ (ANDE:US), market cap US\$990m
- 23,156 railcars, 122 locomotives (owned/leased/managed) on 31 Dec 2012
- 2012 Q4 results, filed 1 Mar 2013 (**emphasis** added):
 - *(Rail Group) The increase in revenues is attributable to having **more cars in service, higher volume of transactions, and favorable lease rates***
- 2012 Q4 conference call presentation on 7 Feb 2013 (**emphasis** added)
 - **Rail Group achieved record operating income**
 - **Increased railcar fleet, began construction of railcar paint and blast facility**
 - Benefited from **gains on sales of railcars and related leases** and non-recourse transactions

US Railcar Fleet Utilization Rates



Helm – Conclusion

- 3 major competitors say **business is good**
 - Utilization rates are HIGH
 - Lease rates are INCREASING
 - Lease renewal rates are UP
 - Operating margins are UP
- Excluding the non-cash accounting charges, Helm should be doing well too



Valuation – Helm (Worst Case)

- 3-year average EBITDA: \$33.4m
 - Excludes Associates and JVs
- At 6x EV / EBITDA, valuation is \$200m
- Debt \$143m - Cash \$52m = Net Debt \$91m
- Equity Value = \$200m - \$91m = \$109m
- Assoc. & JVs: 3-year average Operating Profit \$9.6m
- At 8x Operating Profit, valuation is \$77m
- Total Value of Helm: \$109m + \$77m = \$186m
- **k1 owns 80.1% of Helm = SGD 149m**



Valuation – Helm (Most Likely Case)

- Economy improves, EBITDA increases 20% = \$40m
 - Excludes Associates and JVs
- At 6x EV / EBITDA, valuation is \$240m
- Debt \$143m - Cash \$52m = Net Debt \$91m
- Equity Value = \$240m - \$91m = \$149m
- Assoc. & JVs: Operating Profit up 20% = \$11.5m
- At 8x Operating Profit, valuation is \$92m
- Total Value of Helm: \$149m + \$92m = \$241m
- **k1 owns 80.1% of Helm = SGD 193m**



Knowledge Universe Holdings (KUH) – Overview

- Private Education Provider
 - Started in 1996 with US\$500m
 - Founders: Michael Milken, Lowell Milken & Larry Ellison
 - Run by: Michael Milken, Lowell Milken & Steven Jay Green
 - 3,000 locations worldwide, 40,000 staff, 300,000 students
 - US: 1,600+ childcare centres
 - UK: Busy Bees (146 centres)
 - SG: includes Canadian International School
 - Additional underlying investments
 - Childcare centre real estate (KC Propco II LLC)
 - K12 (LRN:US, interest in 7.4m shares, 20% stake)
 - EmbanetCompass (sold to Pearson in Oct 2012 for US\$650m)
 - **KUH owns 65% of KUE LP which owns 100% of KUE LLC**



KUE LLC – Financials

- KUE LLC

- *KinderCare, Knowledge Beginnings, CCLC, The Grove School, Champions, Cambridge Schools*

- 2010 revenue: USD 1.6bn

- EBITDA margin: 13.2% (2010), 11.6% (2011)

- Current Debt: USD 260m

- Debt to EBITDA for 12 months ended 31 Mar 2012 = 6.1

- Implies EBITDA = USD 42.6m

- Cash on 31 Dec 2011 = USD 54m

- Debt USD 260m – Cash USD 54m = Net Debt USD 206m

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KUE LP – Investments

- KUE LP
 - K12, Inc (listed on NYSE, interest in 7.4m shares)
 - Last done USD 24.71 (9 Apr 2013)
 - Stake Value = USD 183m / **SGD 227m**
 - Canadian International School, assumed 51% interest
 - Construction cost SGD 140m, assume 70% debt funded
 - Equity = 30% = SGD 42m
 - Stake value = **SGD 21m**
 - Busy Bees, assumed 51% interest
 - 2011 EBITDA GBP 14m, debt GBP 35m
 - 6x EV / EBITDA = GBP 84m
 - Equity = GBP 84m - GBP 35m = GBP 49m
 - Stake value = GBP 25m / **SGD 48m**
 - Propco Holding II LLC
 - Real estate value estimated at USD 1bn in 2005
 - Assume 70% loan-to-value ratio, Equity = USD 300m / **SGD 372m**
 - Total of 4 Investments = **SGD 668m**



Valuation – Knowledge Universe (Worst Case)

- KUE LLC
 - Assume Recession Continues, EBITDA is flat at USD 42.6m
 - At 6x EV / EBITDA, valuation is USD 256m
 - Net Debt = USD 206m
 - Equity Value = USD 256m – USD 206m = USD 50m / **SGD 62m**
- Childcare businesses in S'pore, M'sia, India: **ZERO** value
- EmbanetCompass USD 650m sale proceeds: **ZERO** net proceeds
- Total Value of KUE LP
 - KUE LLC + KUE LP Investments = SGD 62m + SGD 668m = **SGD 730m**
- **k1 owns 12.2% of KUH which owns 65% of KUE LP = SGD 58m**

Valuation – Knowledge Universe (Most Likely Case)

- KUE LLC
 - Assume Economy Recovers, EBITDA margin rises to 2011 level (11.6%)
 - Revenues flat at USD 1.6bn, EBITDA = USD 186m
 - At 6x EV / EBITDA, valuation is USD 1,114m
 - Net Debt = USD 206m
 - Equity Value = USD 1,114m – USD 206m = USD 908m / **SGD 1,126m**
- Childcare businesses in S'pore, M'sia, India: **ZERO** value
- EmbanetCompass USD 650m sales proceeds
 - Assume 1/3 interest = USD 217m / **SGD 269m**
- Total Value of KUE LP
 - KUE LLC + KUE LP Investments + EmbanetCompass proceeds
= SGD 1,126m + SGD 668m + SGD 269m = **SGD 2,063m**
- **k1 owns 12.2% of KUH which owns 65% of KUE LP = SGD 164m**

Guggenheim Capital – Overview

- Majority owner of Guggenheim Partners (GGP)
 - GGP was originally the Guggenheim family office
 - GGP started in 1999 with US\$5b, today it manages US\$170b
 - Currently run by Mark Walter and Todd Boehly
 - Guggenheim family retains a small stake
 - Asset Management
 - Several hedge funds and an investment bank
 - Assets managed include \$75b from insurers
 - Insurance
 - Controlled insurers manage at least \$30b
 - Private Equity
 - Formed consortium to buy the LA Dodgers baseball team
 - \$2.15bn for team, plus \$1bn for players, renovations etc.
 - Sold TV rights for \$6bn (Dodgers will get \$4bn or more)

Valuation – Guggenheim Capital

- Invested US\$100m in June 2011
 - Preferred Units paying 7% dividend
 - Put Option after 6 years
 - Warrants allowing conversion into equity
- No impairments to date
 - Units are current on dividends
 - Warrants have option value
- **Valuation: USD 100m / SGD 124m**



Valuation – China Grand Auto

Hong Kong-listed Car Dealers	Stock Code	2012 Sales	Market Capitalization (as of 9 Apr 2013)	Price/Sales
Zhongsheng Auto	881 HK	RMB 50.0bn	HKD 19.4bn	0.31
China Yongda Auto	3669 HK	RMB 21.7bn	HKD 11.1bn	0.41
China ZhengTong	1728 HK	RMB 27.6bn	HKD 11.1bn	0.32
Baoxin Auto	1293 HK	RMB 18.1bn	HKD 15.8bn	0.69
			Median Price/Sales Ratio	0.37

- China Grand Auto had 2011 sales of **RMB 64.1bn**
 - Preparing for IPO, so listed peers are a valid reference
 - Using median price/sales ratio of 0.37, value is RMB 23.7bn
 - k1 has a 1.6% effective stake = RMB 379m / SGD 76m
- **Worst Case Value = Cost = USD 12.3m / SGD 15.3m**
- **Most Likely Value = SGD 76m**



Valuation – McMoRan Exploration

- Listed on NYSE (MMR:US), market cap US\$2.7b
- Oil & Gas exploration and production
 - Offshore in the Gulf of Mexico
 - Onshore along the Gulf Coast
- k1 owns 2,309,000 shares (~1.5%)
- MMR to be sold to Freeport-McMoRan Copper & Gold (FCX:US)
 - Per Share: US\$14.75 + 1.15 units of a royalty trust
 - Last Done: US\$16.45 (9 Apr 2013)
- Valuation
 - **Worst case (trust value is zero): USD 34m / SGD 42m**
 - **Most likely case (using last done price): USD 38m / SGD 47m**



k1 Valuation – Worst Case

Helm Financial	SGD 149m
Guggenheim Capital Pref. Units	SGD 124m
Knowledge Universe Holdings	SGD 58m
China Grand Auto	SGD 15m
McMoRan Exploration	SGD 42m
Total Value	SGD 388m
Shares Issued	2,116m
Worst Case Value Per Share	SGD 0.183
Last Done Price (9 Apr 2013)	SGD 0.161
Discount	12%



k1 Valuation – Most Likely Case

Helm Financial	SGD 193m
Guggenheim Capital Pref. Units	SGD 124m
Knowledge Universe Holdings	SGD 164m
China Grand Auto	SGD 76m
McMoRan Exploration	SGD 47m
Total Value	SGD 604m
Shares Issued	2,116m
Most Likely Value Per Share	SGD 0.285
Last Done Price (9 Apr 2013)	SGD 0.161
Discount	44%



Final Notes

- Cash Offer at SGD 0.135 (lapsed in Sep 2012)
 - Steven Green's deemed 14% stake would go to 43%
 - He runs k1 as Chairman and CEO, if he wants to **triple** his stake, k1 is probably worth **a lot more** than the offer price
 - BV Investment would maintain its stake at 12%
 - Its owners are private equity professionals, if they are not selling, it means they have **confidence in Steven**
 - Keppel Corp's stake would rise from 36% to 45%
 - Keppel Corp is passive, an increase in its stake is a **vote of confidence in Steven**
- Catalyst
 - In Sep 2007, the board of directors decided not to make new investments, but to **sell assets and return cash to shareholders**
 - Asset sales and cash distributions will eventually realize the full value of **ALL** of k1's investments

Appendix: What about Steven Green?

- Business Savvy
 - >25 years of business experience
 - Chairman & CEO of Samsonite Corp (1988-1996)
 - Director of GIC Real Estate (2008-current)
- Helped k1 to realize significant investment profits
 - GASCO: \$170m
 - McMoRan: \$66m (and counting)
 - Helm \$49m (via sale of DM&E)
 - K2: \$20m
- Investment Profits have funded large cash distributions by k1
 - To date, k1 has paid out >SGD 470m / SGD 0.22 per share
- What was Steven Green keen to buy recently? **k1**