



**BEYOND BANKS: SELECTED OPPORTUNITIES IN  
NON-BANK FINANCIALS**

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MARCH 2016





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## Agenda

- Introduction
- Why Some Investors Dislike Banks
- Our View of Banks
- Listing of Other Industries within Financial Services sector
- Selected Opportunities
  - Voya Financial
  - TransUnion
  - KKR & Co.
  - Colony Capital
  - Ambac



## Brief Introduction to Gator Capital

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### Investment Manager

- Manage \$70 million
- Based in Tampa

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### Long/Short Financials

- Manage a private investment fund
- Focus on the Financial Services sector
- Emphasis on off-the-run stocks

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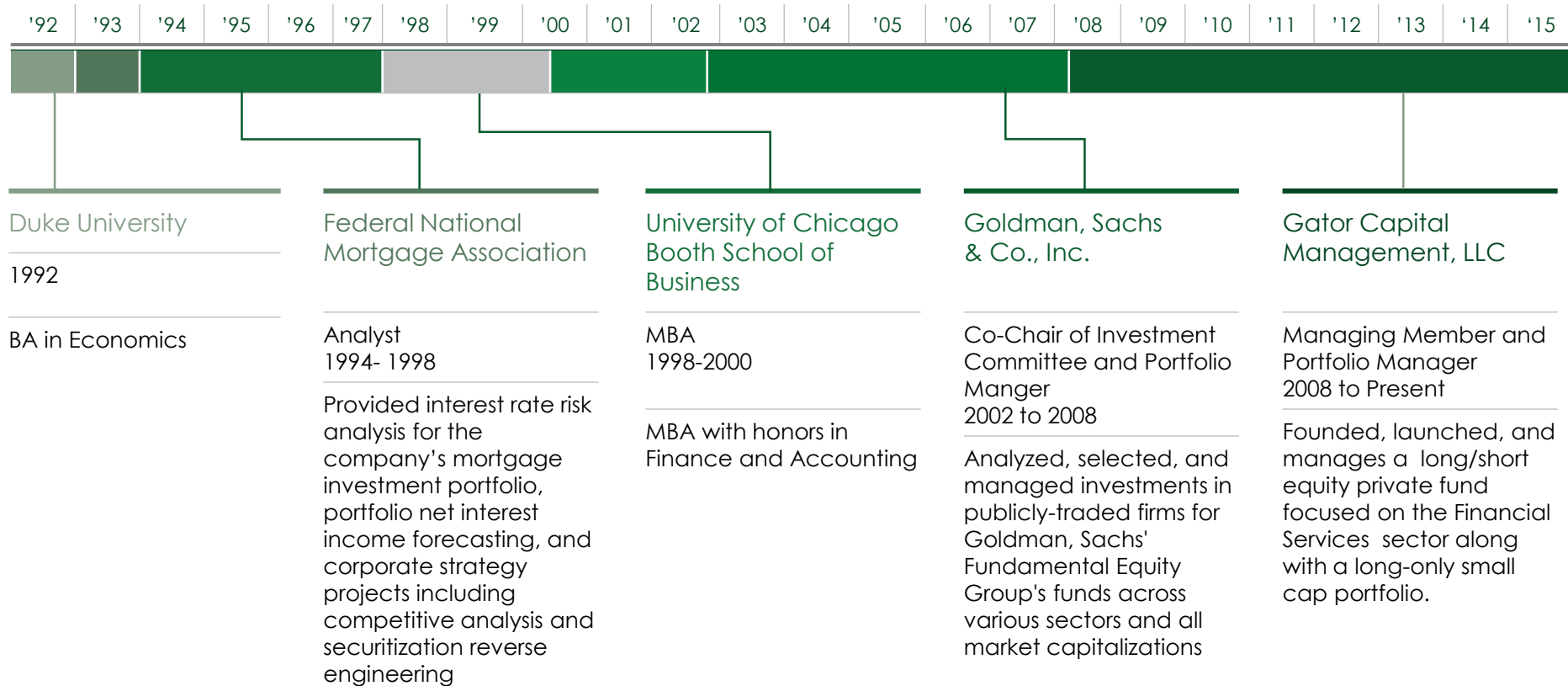
### Long-only Small Cap

- Manage a long-only Small Cap Portfolio
  - 30 holdings with emphasis on Consumer, Financial Services and Energy
  - Offered in a mutual fund and separate accounts
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# Portfolio Manager's Career Timeline

Derek Pilecki's diverse professional experiences (in economic and quantitative analysis, management consulting, business entrepreneurship, and asset management) complement and enhance his investment expertise





# Why Some Investors Dislike the Banks

## Regulatory Pressures

- Higher capital requirements and liquidity requirements directly lowering returns
- Compliance infrastructure costs
- Business line exits
  - Debit card
  - Trading
  - Reduced CRE exposure

## Economic & Competitive Environment

- Low interest rates pressure returns
- Large brokerage firms have introduced banking to mass affluent and high-net worth customers
- Consolidation in consumer lending has increased pressure on C&I lending

## Disappointing M&A Activity

- Largest banks cannot acquire anymore deposits
- Technology enables banks to enter new markets with low branch footprint
- Banks are closing branches and reducing size of branches, so no need to buy more branches



## Our View of Banks

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### Short-Term

1. Valuations are too low given the lack of credit issues across the industry.
2. Banks have significant earnings leverage to higher short-term rates.

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### Long-Term

1. We share many of the concerns about the banking industry.
  2. Competitive intensity is increasing.
  3. Banks with unique loan origination or deposit gathering capabilities may generate excess returns.
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## Listing of Other Industries within Financial Services Sector

- Asset Managers
- Alternative Asset Managers
- Business Development Companies
- Exchanges
- Financial Processing Companies
- Investment Banks
- Life Insurance
- Mortgage Banks
- Mortgage Insurance
- Mortgage REITs
- Property & Casualty Insurance Companies
  - Commercial Lines
  - Personal Lines
  - Specialty
  - Reinsurance
- Retail Broker Dealers
- Specialty Finance



## Potential Opportunity: Voya Financial (NYSE: VOYA)



Source: ycharts.com

- Life insurer with large defined contribution and investment management businesses. Former ING US business.
- Management came from AIG's insurance business where they had divested 17 units.
- Multi-year program to increase returns by shrinking capital intensive businesses and growing capital-light businesses.
- Strong stock buybacks. In 2015, repurchased 12% of shares outstanding. We expect a similar repurchase amount in 2016
- Trades at 0.55x tangible book. We believe 1.0x is within reason. Book value grew 6% in 2015.

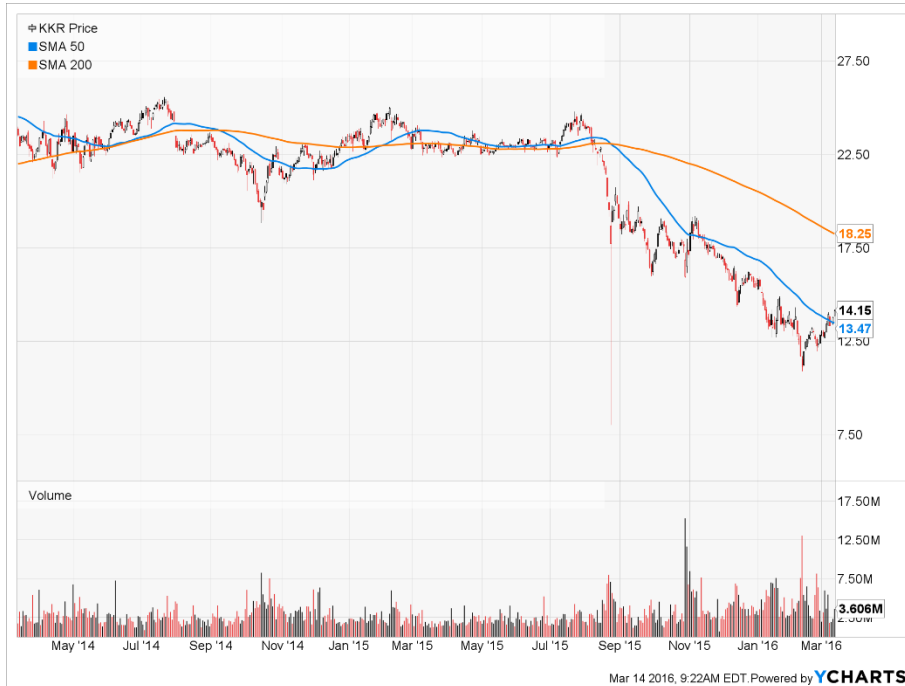
## Potential Opportunity: TransUnion (NYSE: TRU)



Source: ycharts.com

- Consumer credit reporting agency. Recent IPO after private equity ownership
- Oligopoly business with stable competition from Equifax and Experian.
- Recurring revenue business as lenders pay a transaction fee when consumer applies for credit.
- Potential to benefit from cyclical upturn in demand for consumer credit.
- Light leverage improves returns.
- Trades at 10x EBITDA. We see potential for double-digit EBITDA growth and an increase in valuation multiple.

## Potential Opportunity: KKR & Co. (NYSE: KKR)



Source: ycharts.com

- Top-tier private equity firm.
- Generating consistent AUM growth. Firm has doubled in last five years.
- Expanding investment platform: real estate, Asian private equity, Infrastructure, Energy, Leveraged Credit, Private Credit.
- Stock trades ~\$14, but company has ~\$10 of net investments on its balance sheet.
- Management fee business generates \$0.68 of earnings. We value this business at 12x or ~\$8.
- This values all future incentive fees of KKR at \$-4 per share. We think incentive fees should be valued at \$4 per share.

# Potential Opportunity: Colony Capital (NYSE: CLNY)



Source: ycharts.com

- Commercial real estate investment company.
- Merged with external manager.
- Significant low-yielding investments that can be recycled.
- We believe the asset management business is worth \$6 per share.
- Real estate investment business is worth \$16.50 per share
- 9.7% dividend yield which is well covered by earnings.

# Potential Opportunity: Ambac (NASDAQ: AMBC)



Source: ycharts.com

1.5 billion versus \$0.7 billion market cap.

similar suits.

had reserved.

onds.

2013, only boutique sell-side research firm publishes  
s (Puerto Rico and Illinois).



## Working With Gator

We'd appreciate the opportunity to tell you about our funds, firm, and how we can add value to your investment portfolio. Contact us today for an initial meeting and to receive a copy of our ADV.

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### Our Competitive Advantage

- **Experience:** Our firm founder and portfolio manager has extensive experience investing
- **Specialization:** Our strategies are founded on our proven investment approaches
- **Focus:** We focus on buying the underlying business while maintaining a strong sell discipline

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