

NORDSTERN CAPITAL

Investment Memo

New York, April 3rd, 2017

Dear **NORDSTERN CAPITAL** Partners and Friends,



Gruppo MutuiOnline: a new love story

The size of the position that we took in Gruppo MutuiOnline (MOL) right from the start demonstrates that I strongly believe in the success of this investment.

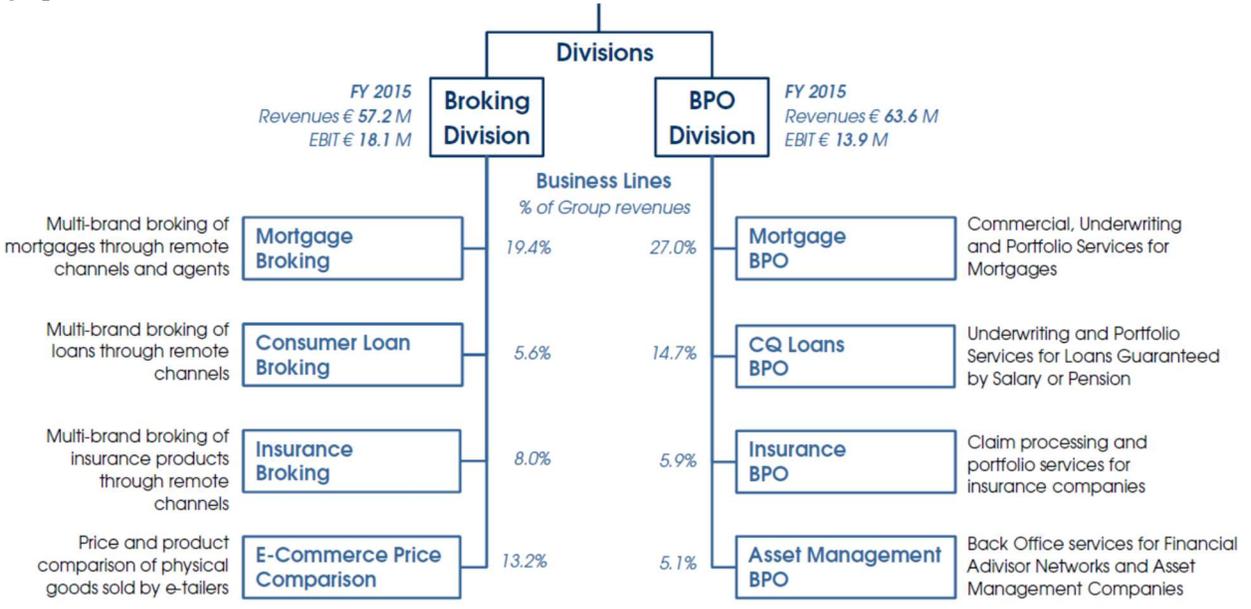


With Marco Pescarmona, Chairman and founder, at the Gruppo MOL headquarters in Milan, Italy.

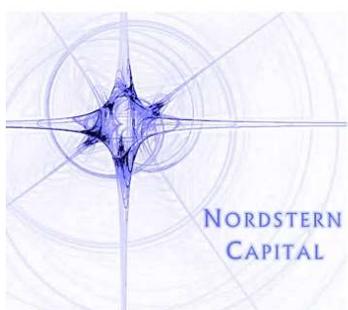
There is a lot to say about MOL. Let's keep it brief for now, and start with a quote from Warren Buffett:

"I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over."

Gruppo MutuiOnline is the kind of no-brainer investment that **NORDSTERN CAPITAL** is looking for. An Italian company, MOL is doing business exclusively in Italy. "Mutui" is Italian for "mortgage". The origins of the company come from online mortgage broking. Today it has two segments: online broking and business process outsourcing (BPO). Both segments consist of several different businesses outlined in the following graphic:



From company presentation, 2016



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What are they “best in ~~the world~~ Italy” at:

MOL is the undisputed market leader in almost everything they do in Italy, except for the insurance brokerage business, where they are number two.

The Broking division operates several websites and related services and generates revenues either through clicks (price comparison) or through commissions for a brokered product (mortgages, loans, etc). In very simplistic terms, MOL is “The Google” you would go to if you were looking for, say, a mortgage. MOL would find the best one for you and your specific situation and connect you with the seller (e.g. bank) of that specific product (e.g. mortgage).

The Business Process Outsourcing (BPO) division provides all kinds of services for financial institutions, mainly consumer banks. To name just a few services, MOL performs anti-fraud checks, mortgage notarizations, real estate appraisals, customer income analysis, contract drafting, closing preparation, etc. on behalf of consumer banks.

Sustainable competitive advantages:

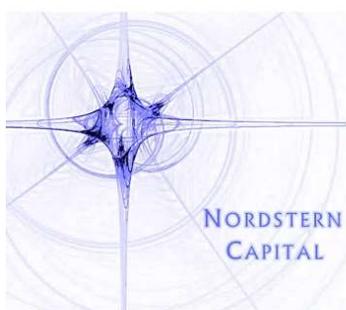
The websites of the Broking division are classic “winner-takes-all” markets. Think Google, think Youtube (anyone using Bing or Newgrounds?). Once somebody becomes the dominant player in its space, network effects develop, and it gets increasingly harder to push the leader out. Except for the insurance market, MOL’s websites dominate their niches.

Banks in Italy outsource BPO activities because MOL can do them with higher quality and lower costs than the banks can. There is nobody else in Italy who comes even close to MOL’s quality and efficiency. Basically, MOL is the only noteworthy player in its niche services. Average market penetration might be around 10% depending on the specific process. For example, in notary services MOL owns already more than 50% of the market.

The only substantial competition is that banks keep these processes in-house. However, banks are under increasing pressure to save costs. MOL is increasingly getting better at doing what they do (scale, network effects, data from each bank, mortgages, loans, etc.) and thus can offer better and better services. The number of banks outsourcing to MOL is growing and the amounts and complexities of processes that the banks outsource are growing as well. MOL is getting increasingly vital to their customer’s organisms.

Excellent management:

I don’t want to write much here, I am just making a statement: I have hardly ever met more capable managers, finer people, and more trustworthy fiduciaries than the two founders of MOL, CEO Alessandro Fracassi and Chairman Marco Pescarmona.



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Is it cheap?

MOL trades at about 14x owner's earnings (April 3rd, 2017). Operating margins are greater than 25% and are increasing. MOL has been growing revenue at 40% on average over the last three years. If MOL's next three years would look like it's last three years, a fair price should be significantly higher, even if MOL were never to grow again afterwards. And how likely would that be?

Sincerely,

Johannes Arnold

Johannes Arnold, Nordstern Capital Investors LLC

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