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A. Overall summary

Capital called (in$)	5,150,000
Distributions	364,000
Current NAV	7,175,000
Total value	4,786,000
NAV Last Quarter	6,569,000
Gain/loss($)	2,389,000
% Gain/loss	46%
NAV/share	**1.62**

B. Net Returns **Dec-17**

	Quarterly	Year to date	1 year	Since Inception
Q3 2012	-0.4%	-0.4%		-0.4%
Q4 2012	1.9%	1.5%		1.5%
Q1 2013	9.8%	9.8%		11.5%
Q2 2013	1.5%	11.4%	13.1%	13.1%
Q3 2013	9.3%	21.8%	22.6%	23.7%
Q4 2013	9.3%	33.1%	33.1%	35.1%
Q1 2014	-3.9%	-3.9%	16.4%	29.8%
Q2 2014	-0.9%	-4.8%	13.7%	28.6%
Q3 2014	0.7%	-4.2%	4.7%	29.5%
Q4 2014	4.4%	0.0%	0.0%	35.2%
Q1 2015	2.4%	2.4%	6.7%	38.5%
Q22015	-6.3%	-4.0%	0.9%	29.8%
Q3 2015	-14.0%	-17.4%	-13.8%	11.6%
Q4 2015	0.0%	-17.4%	-17.4%	11.6%
Q1 2016	11.1%	11.1%	-10.5%	24.0%
Q2 2016	-0.4%	10.6%	-4.9%	23.0%
Q3 2016	6.7%	18.1%	18.1%	31.8%
Q4 2016	0.6%	18.8%	18.8%	32.6%
Q1 2017	4.1%	4.1%	11.4%	38.1%
Q2 2017	3.9%	8.2%	16.2%	43.4%
Q3 2017	3.7%	12.1%	12.9%	48.7%
Q4 2017	8.9%	22.1%	22.1%	61.9%

	2017	2016	2015	2014	2013	2012*	Since inception (annualized)
Fund	22.10%	18.80%	-17.40%	0.03%	33.10%	1.50%	9.21%
S&P index	19.38%	9.60%	-0.81%	11.70%	32.31%	4.70%	13.30%

*since the launch of fund in July 2012

C. Drona Portfolio Details (company with > 3% of portfolio)

Company	Industry	Date First invested	Cost	Value	Total Gain	% gain/Loss	% of portfolio
Accenture	Consultancy service	Jun-12	176,000	467,000	291,000	165%	7%
C.H Robinsons	Third Party Logistics	Feb-14	456,000	713,000	257,000	56%	10%
Cummins	Engines	May-15	250,000	318,000	68,000	27%	4%
Fastenal	Industrial distributor	Nov-15	200,000	273,000	73,000	37%	4%
Fluor	Construction and Maintenance	Jun-12	194,000	222,000	28,000	14%	3%
Heyster-Yale	Fork Lift manufacturer	Nov-14	227,000	273,000	46,000	20%	4%
Mettler-Toledo	Precision weighing instrument	Jun-12	173,000	268,000	95,000	55%	4%
Newmarket Corp	Speciality additives	Mar-13	254,000	387,000	133,000	52%	5%
O'Reilly	Auto Parts & Services	Sep-17	152,000	180,000	28,000	18%	3%
Papa John's	Restaurant	Dec-17	252,000	241,000	-11,000	-4%	3%
Robert Half	Staffing & Outsourcing Services	Mar-17	253,000	292,000	39,000	15%	4%
S&P Global	Financial information services	May-10	274,000	1,080,000	806,000	294%	15%
Thor Industries	Receation Vehicles	Mar-13	251,000	799,000	548,000	218%	11%
Tractor Supply	Rural Lifestyle Retail	Mar-17	199,000	262,000	63,000	32%	4%
Variance Technology	Medical Equipment	Jun-15	349,000	445,000	96,000	28%	6%
Total Equity			**3,660,000**	**7,137,000**			**87.70%**
Cash				38,000			0.5%
Total Asset Value				**7,175,000**			

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DRONA CAPITAL

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Letter to investors: 12th Jan 2018

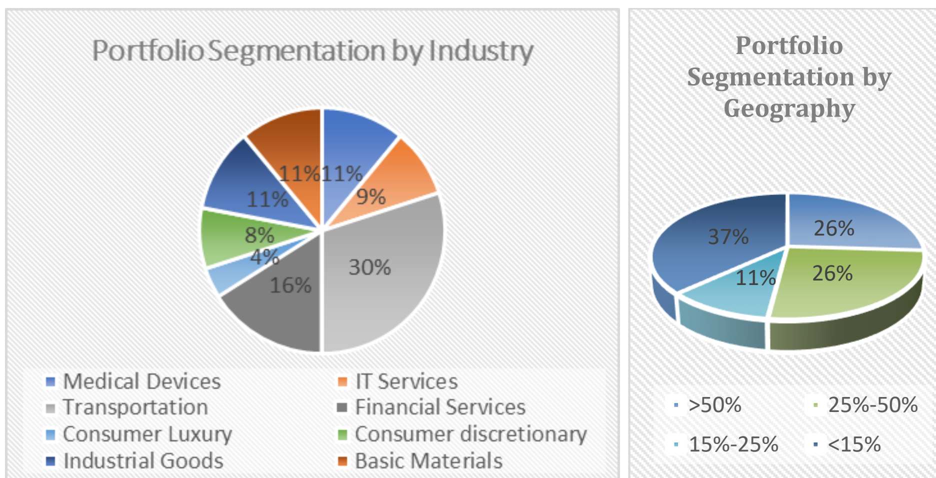
Summary of Performance

- The fund has had an annualized return of 9.2 % since its inception in June 2012.
- The fund's return for the year 2017 was 22.10%, 270 basis points higher than S&P index return of 19.4%.
- In the fourth quarter of 2017, the fund returned 8.9%, 270 basis points higher than S&P index return of 6.2%.
- The assets under management are US$ 7. 2 million, with 0.5 % of portfolio held as cash.
- Currently we have 19 companies in the portfolio, with the top 10 holdings accounting for 87% of the portfolio.
- We invested in one new company in the quarter and four in the year.

This year marks five years since the inception of Drona Capital and we are pleased with the strong brands of businesses that we have built in our portfolio. Most of the companies in our portfolio are market leaders in the industries they operate in and have continued to maintain and grow their competitive advantage over the years. We seek to invest in companies that can withstand the pressures of time: high-quality businesses that have superior financial and operating performances and sustainable competitive advantage while operating in stable and attractive industries. We invest in them only when we can buy at a reasonable price and intend to stay invested in them for a very long time (ideally forever).

This year I ran my first half-marathon and it has been a great journey of learning: building confidence, stamina, and discipline. The journey of investment has not been very different: like long-distance running, long-term investment is a test of temperament and ability to stay disciplined. Sometimes we have run out of breath – we have sold 7 businesses since inception and in retrospection I think it was a mistake to sell most of them – but over the years, we have learnt how to pace ourselves well.

Avoidance of both financial and operational risk is a key part of our strategy and we have followed this discipline very strictly – most of the companies have negligible or no long-term debt and none of the companies have customer concentration of more than 10%. In addition, the fund itself is well diversified in terms of industry and geographical exposure.



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Most industries account for ~ 10% of the Drona fund. Transportation industry has an exposure of 30% but this is an industry with broad range of companies such as Cummins, a manufacturer of diesel engines and CH Robinsons, a third-party logistics provider. We also have high geographic diversification as most of our companies, while listed in the US, have significant operations outside of the US – 37% generate more than 50% of their revenues abroad while another 26% bring in 25-50% of their revenues from overseas business.

As a fund, we have chosen not to invest in the trendy, "high- growth" technology companies. Instead, our investments are in "boring" industries, the unseen survivors, which have existed for decades and have demonstrated not "spectacular" but "consistent" growth. At times, it has been tough not to follow the crowd, but we are proud that we have stuck to our strategy for so long, and we are confident we will maintain it for years to come.

In this newsletter, we will discuss our new investment in Papa John's and provide you with update on three of our portfolio companies: Accenture, Thor, and Varian.

New Investment:

Papa John's (PZZA)

The first Papa John's Pizza store was opened in 1984 and it has now grown to more than 5,000 locations, run by over 120,000 franchise and corporate team. The company generated revenue of $ 1.7 billion in 2017 and has a market capitalization of $ 2.1 billion.

The company's revenue, operating earnings, and earnings per share have grown at a compound annual growth rate (CAGR) of 5%, 14% and 20% respectively in the last decade. It has maintained an exceptionally high return on invested capital averaging 33% in this period. At the same time, its balance sheet is robust (net debt/EBITDA of 1.4 x), with consistent organic growth for the past decade. It has succeeded in building a strong brand as one of the top three Pizza brands worldwide in the highly competitive QSR (quick serving restaurant) industry. We have been following this company very closely for the last few years, and got the opportunity to invest in the stock when its stock price dipped to an eighteen-month low due to a controversy surrounding the company and a couple of low performing quarters. We invested at a trailing twelve months price- to- earnings ratio (P/E) of 19.x, which is a slight discount from its ten years average P/E of 22x but a significant discount from its competitors valuation of over 30x.

Investment Thesis:

1- Its mature foodservice distribution model with an optimum mix of company-owned and franchise restaurants, creates a barrier for a new entrant and assures us of its long-term sustainable growth:

The company operates through over 5000 restaurants, consisting of 744 Company-owned and 4,353 franchised restaurants, operating domestically in all 50 states and in 45 countries. In addition, it has Quality Control Centres (QC) from where franchisee is required to purchase dough and pizza sauces to ensure consistent food quality. Internationally, it has been successful in several markets - UK is its largest international market with 364 stores; China has 198 and followed by Canada, Mexico and Russia have 100 units each. Domestic sales contribute over 50% of company's total revenue, QCs account for about 40% of sales and international contributes 10%. At the operating income level, franchisee account for over 40% of the operating

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income, followed by domestic company owned restaurant of 30%, QCs 21% and international 6% of the total operating income.

Although traditionally the food service industry is highly capital intensive, since the majority of Papa John's restaurants do not offer dine-in, the cost of opening a domestic Papa John's restaurant (approx. $ 350K) is almost one-fourth of typical fine-dining restaurants. The franchisee model further enables operational efficiency as the capital investment required to grow the business is reduced substantially. The standard domestic agreement with the franchisee includes a joining fee of $25,000 and royalty fee of 5% of sales. This model is sustainable because franchise agreements have an initial 10-year term with a 10-year renewal option.

In addition to a well distributed franchisee model, the company has built an efficient operating system through the QC caters that take advantage of efficiency of scale through volume purchasing of food and supplies. It has 10 full-service regional production and distribution centres in the U.S. and four internationally (in Canada, UK, Mexico, and China). These supply pizza sauce and dough, food products and other supplies to the restaurants, eliminating the need for them to order food from multiple vendors. This not only helps lower the restaurant's operating costs considerably but also helps the company control the quality and maintain a consistency of brand.

This model has enabled Papa Johns to successfully grow and maintain itself as one of the top pizza brands in the $140 bn pizza industry. It is the third largest pizza chain after Pizza Hut (owned by YUM) and Dominos and has approximately 4% market share in the US market. Pizza Hut has over 16,000 franchise stores worldwide, while Dominos has about 13,500 (5000 domestic). Papa Johns has a total of 5000 stores (approx. 3500 domestic). As shown in the table below, it has done well in the last decade as its revenue has grown at a CAGR of 5%, compared to 6% of Dominos and -5% of Pizza Hut. Its operating income has grown similar to Dominos at 13% while Pizza Hut has contracted by 7% in this period.

The operating margin for Dominos and Pizza Hut are much higher than Papa John's as they predominantly have a franchisee model (8% of Dominos total stores in the US are company owned compared to 20% of Papa Johns). Although Dominos has performed better in the last couple of years in terms of comparable store sales, Papa John's has had more consistent comparable store sales with only positive or flat sale in the last ten years (please see tables below for details)

Operating Metrics	PZZA	DPZ	YUM
Revenue	1714	2472	6366
10 Year CAGR	5%	6%	-5%
5 Year CAGR	6%	10%	-17%
EBIT	164	453	1632
10 Year CAGR	14%	10%	3%
5 Year CAGR	13%	13%	-7%
Net Income(PAT)	103	215	1619
10 Year CAGR	13%	21%	7%
5 Year CAGR	13%	18%	0%
EPS Diluted	2.74	3.47	2.48
10 Year CAGR	20%	9%	4%
5 Year CAGR	21%	16%	-7%
EBIT Margin	10%	18%	26%
10 Year Avg	7%	16%	14%
5 Year Avg	8%	18%	14%
Operating ROCE%	43%	85%	116%
10 Year CAGR	33%	55%	40%
5 Year CAGR	35%	72%	42%
Store count	5097	6215	16400

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Store Count	2016	10 Year Growth
Domestic Company-owned Stores		
PZZA	702	8%
DPZ	392	-31%
YUM(PIZZA HUT)	553	-17%
Domestic Franchaise Stores		
PZZA	2,739	30%
DPZ	4,979	9%
International Stores		
PZZA	1,614	272%
DPZ	8,440	143%
YUM(PIZZA HUT)	15,856	28%
Total Employee	**2016**	**10 Year Growth**
PZZA	23100	67%
DPZ	14100	13%

Domestic Company-owned Restaurants	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PZZA	1%	2%	-1%	-1%	4%	6%	7%	8%	6%	4%
DPZ	1.0%	-2.2%	-0.9%	9.7%	4.1%	1.3%	3.9%	6.2%	12.2%	10.4%
North America Franchised Restaurant	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
PZZA	0%	1%	0%	0%	3%	3%	3%	6%	4%	3%
DPZ	-2.1%	-5.2%	0.6%	10.0%	3.4%	3.2%	5.5%	7.7%	11.9%	10.5%
Domestic Stores Total	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
PZZA	0%	1%	0%	0%	3%	4%	4%	7%	4%	4%
DPZ	-1.7%	-4.9%	0.5%	9.9%	3.5%	3.1%	5.4%	7.5%	12.0%	10.5%
International Stores	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
PZZA				3%	5%	7%	8%	7%	7%	6%
DPZ	6.7%	6.2%	4.3%	6.9%	6.8%	5.2%	6.2%	6.9%	7.8%	6.3%
YUM (Pizza Hut Division)			-2%	2%	3%	4%	-2%	1%	1%	-1%

We believe the company has managed to grow well in a highly competitive industry and with a mature brand and tried and tested model, it has a significant growth opportunity in several markets across the globe for the next several years.

2- Papa John's brand reputation built around the superior-quality and "clean label" has continued to differentiate it from its competitors over the years and enabled it to build a loyal customer base:

Papa Johns was built on a foundation of quality and over the last three decades, it has succeeded in becoming the undisputed leader when it comes to pizza quality. Clean labels are core to its brand strategy as reflected in the company motto of "Better ingredients, better Pizza".

This distinction has been possible because of the investments the company has made over the years in choosing the best ingredients and leading the industry with a long list of industry "firsts": its pizzas are made with fresh, never frozen, hand-tossed dough and extra virgin olive oil; the fresh-packed tomato sauce is made of ripe, farm-grown freshly picked tomatoes, rather than re-manufactured from industrial paste; the cheese is made from 100% mozzarella and vegetables are freshly cut in the restaurants daily. In 2016, Papa John's became the first national pizza delivery chain to announce the removal of all artificial flavours, synthetic colours and high fructose syrup from its menu and it also started using antibiotic free chickens and transitioning to cage-free eggs for its entire menu. It became first chain to introduced gluten-free crust in 2017.

The company continues to invest in improving its clean label brand image- it now spends more than $100 million annually (compared to $50 million in 2014) and has recently created a new position of Chief Ingredient Officer in 2016. Many of its competitors won't be willing to make the investment in time and money (especially in trying economic times) that Papa John's has already committed to make to build a clean label brand, thus creating a differentiated space for itself in this highly competitive industry. As an example of its industry leading gold quality standard, in 2014 Panera Bread announced its "NO NO list" of artificial colours, flavours and preservatives it intends to remove; 57 of these were already not found in Papa John's pizzas.

It is ultimately quality that distinguishes Papa Johns' pizzas from the rest, and this in turn creates huge brand loyalty within a customer group, which view quality as their number one priority. This reputation has also given Papa John's the ability to offer pizzas at a higher price point than the competitors. For instance, in 2014, the company faced significant headwinds due to an increased price of cheese but were able to mitigate these challenges because of quality positioning and thus able to pursue a premium pricing strategy.

We believe that the moat Papa John's has built around its quality has differentiated it from other pizza brands and will continue to do so in its long-term.

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3. **Papa John's ability to adopt early to the digital wave has not only enabled it to widen its competitive moat but also gives us confidence in its ability to continue to innovate in the coming years:**

Papa John's made digital a core to its investment strategy and over the years has successfully leveraged technology to get an edge over its competitors. The company understood the changing customer behaviours and launched its digital capabilities very early- it took the first online order way back in 1997 and by 2009 25% of its US sales were generated through the digital channel, increasing to over 60% by the end of 2016.

Papa John's has an unmatched technology leadership in the restaurant industry and has a solid track record of digital "firsts":

1997- first online order
2001- industry 1st nationwide online ordering
2006- industry 1st nationwide 24/7 plan ahead online ordering
2007- industry 1st nationwide text ordering
2008- industry 1st $ 1 billion in US digital sales
2010- industry 1st $ 2 billion in US digital sales
2013- industry 1st $ 5 billion in digital ordering – 45% of US sales from digital
2016- expanded digital ordering services with the launch of an Apple TV app, the first ever from a restaurant brand

Over the last two decades, the company has continued to innovate in the digital space and therefore, was more "ready" compared to its competitors when the digital wave took over the industry. Its technology leadership gives us confidence in its ability to capture the growing customer base in the digital space in the coming years.

4. **Low valuation gives us an opportunity to invest in this high-quality business with superior financial and operating metrics**:

In the last decade, the company's revenue, operating earnings, and earnings per share have grown at a CAGR of 5%, 14% and 20% respectively. In addition, it has managed to improve the operating margin in this period by over 500 basis points, from 5% in 2007 to 10% in 2016 while its return on invested capital averaged 45% in this period. At the same time, its balance sheet remains extremely robust, with its current net debt/ EBITDA of 1.4x. Its restaurants count has grown from 3200 to over 5000 in this period at a CAGR of 5% and what is more impressive is that it has had 13 consecutive years positive or flat North America comparable store sales and 7 consecutive years Positive International Comps.

The company sales growth has been muted in the last couple of quarters. Although the comparable store sales have still been positive at 1%, it is much below the historical average of 4%. The company believes that the reduced viewership of NFL matches has been one the key reasons for this decline. Papa-Johns has a major partnership with the NFL and is one of NFL's biggest advertisers. The controversy surrounding NFL due to some of its players protesting during the National Anthem has led to NFL's ratings plummeting as well as a polarisation of viewers. Papa John's managements believes that the reduced viewership has led to loss of business for the company in the last couple of quarters. In addition, the negative press surrounding this news has resulted in unfavourable stock market performance of the company's stock that has dropped by over 30% in the last one year. We believe that this is a short-term issue and does not affect the company's competitive

advantage in the long term. We took the opportunity to invest $250k at a price-to-earnings ratio of 19x, which is lower than its ten-year average of 22x and much lower than its two other competitors – Dominos at 38x and Yum at 25x.

Risks:

1- **Recent change of company's top leadership**: Papa John's has a very experienced management team and in fact, when we invested we were very pleased that John Schnatter, the company's founder, has been CEO for most of its 34 years of existence. However, within a week of our investment in the company, he resigned and its Chief Operating Officer, Steve Ritche took over as the new CEO with Schnatter continuing to serve as chairman. Although this is a huge current risk, the new CEO has been a veteran with the company since 2006 and has served as senior VP Global operation till 2015 when he was appointed as COO. In addition, the company's top management team have experience in excess of 15 years and in total have had 200 years of service with Papa John's.

2- **Supplier concentration**: Papa John's is dependent on a sole supplier for their cheese, one of the key ingredients used by them. While they have no other single supplier for any other ingredients, this is a key risk; however, others in the industry have similar supplier concentration - Dominos have had a single supplier for cheese since 2012. Therefore, this is not a risk solely facing Papa John's.

Annual Updates:

Accenture

Industry	Consultancy Services
Shareholding	7%
Investment cost (US$)	176,000
Value	4,67,000 (+165%)
Holding Period (years)	5.5 years

Accenture is one of the world's leading IT services companies with more than 358,000 people serving clients in a broad range of industries and over 50% of its revenue is generated outside of America. The company generated revenue of US $34.9 billion in FY 2017, and has a market capitalization of $72 billion.

Key highlights:

1- **Superior financial performance and market share gains:**
Accenture reported revenue of $34. 9 billion in FY 2017, a growth of 6% compared to FY2016. Its operating income grew by ~7% as the adjusted operating margin expanded by 145 basis points (due to lower labour cost). The company reported an EPS of 5.52, an increase of ~13% compared to 2016. The revenue contribution continue is well diversified across geographies- North America grew by 4 % (47% of total revenue), Europe by 4% (34%) and Growth Markets by 15%, with strong double-digit growth in Germany, Switzerland, Australia, Singapore, and China. 20% of the company's growth was driven by acquisitions, which were primarily in "The New" (digital, cloud and security) and similar to last year, the "New" continue to be the dominant growth driver, growing double-digit for the year. The total employee count for the company was up 11% to about 425,000 while the Global Delivery Network was up 12% to 318,444.

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2- Balance sheet remains extremely robust:

Accenture remains a net cash company with negligible debt and net cash of $4.1bn. It has very strong cash flow and working capital management remains extremely efficient with operating cash flow as a percentage of net earnings of over 130%. Its free cash flow (operating cash flow net of property and equipment additions) was $4.46 billion for 2017 compared to $4.17 billion in 2016. Its return on invested capital remains extremely high at 130%. Accenture continues to return cash to shareholders through cash dividends and share repurchases. In fiscal 2017, the company returned $4.22 billion to shareholders, including $1.57 billion in cash dividends and $2.65 billion in share repurchases. It had semi-annual cash dividend of $1.33 per share, an increase of 10% compared to the previous year.

3- It continued to focus on acquisitions to strengthen its capability in "The New" enabling it to widen its competitive advantage and gain market share:

Accenture's net revenues from "The New" – digital-, cloud and security-related services – were approximately $18 billion for fiscal 2017, an increase of about 30% over fiscal 2016 and account for about 50% of the company's revenues. This has been the key growth driver for the company, growing double digits in the last three years. In 2017, it deployed $1.7 billon across 37 transactions, nearly twice the investment in fiscal 2016, with majority of acquisitions in the New. Accenture Digital now has the world's largest end-to-end digital capability, across geography and industries: some examples of its digital wins these years are: multi-year digital transformation contracts with Bouygues Construction, Roche (pharmaceutical), Maserati (luxury cars), Freeport-McMoRan (mining) and Syngenta, (leading agriculture company).

Evaluation:
Accenture is in the midst of a technology revolution that is disrupting and transforming businesses and industries around the world. The investments it is making in new, high-growth areas clearly differentiate it in the marketplace, enabling it to gain a significant market share. Its Global Delivery Network, with more than 250,000 people, remains unmatched in the industry. It serves more than 3/4th of the FORTUNE Global 500 and has long-term relationships with them: 98 of its top 100 customers have been with Accenture for 10 years or more. Although the industry is going through challenging times, we believe that with its strong leadership team, Accenture will continue to deliver superior performance in the long-term.

Accenture	2016	2017	% Change
Revenue	32,883	34,850	5.98%
Gross Profit	10,277	11,030	7.33%
EBIT	4,810	5,143	6.92%
Net Income	3,263	3,643	11.65%
EPS	4.89	5.52	12.88%
Margins	**2016**	**2017**	**% Change**
Gross Margin	29.5%	30.0%	1.69%
EBIT Margin	13.8%	14.0%	1.45%
Net Margin	9.9%	10.5%	5.34%

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Thor

Industry	Receation Vehicles
Shareholding	12%
Investment cost (US$)	251,000
Value	7,99,000 (+218%)
Holding Period (years)	4.7 years

Founded in 1980, Thor has grown both organically and through strategic acquisitions, to be the world's largest manufacturer of Recreational Vehicles (RVs). Its revenue in FY 2017 was $ 7.3 bn and the current market capitalization is $ 3.4 Billion.

Key highlights:

1- Delivered solid growth while strengthening the balance sheet:

2017 was one of the strongest years for the Recreational Vehicles (RV) industry since the 1970s and the best year for Thor as it posted record revenues and earnings. Its revenue for the year was $7.25 billion, up 58.2% from $4.58 billion last year, and included revenue of $1.9 bn from its acquisition of Jayco (the third largest RV manufacturer it bought in Q4 of 2016). The organic growth ex-Jayco of 19% was superior to the overall industry growth of 15% and driven primarily by continued strong demand for its more affordably-priced travel trailers. Its operating income and earnings per share grew by 43% and 28% respectively while the operating margin ex Jayco was 15.4 %, down 60 driven by higher product mix of entry level products. The balance sheet remained robust as the company reduced the long-term debt from $ 360 million to $ 145 million, The cash flow generated from operations increased by 22.9% for the year, which was utilized for investments in numerous capital projects as capital expenditure doubled for the year, as well as to increase- dividend per share (up by 10%). The company remained efficient operationally with an inventory turn of 25 days compared to 30 days in 2016 and had a very high return on invested capital of over 60 %.

2- Strategic move to introduce entry-level products enabled market share gain:

As the industry demand shifted toward affordably-priced towable and motorhomes, Thor's management made a strategic decision to expand its product offering of entry-level products. This not only benefited the company near-term by capturing immediate revenue opportunity but also enabled expansion of its customer base to new and younger buyers looking for value. The company believes that over time these consumers will trade-up and therefore it has a favourable long-term implication as well, despite lowering the operating margin in the short term. This strategy enables growth in its market share which was up 80 basis points to 48.2%, while the closest competitor Forest River was down slightly by 30 basis points to 34.8%.

Evaluation:
Thor enjoys a dominant market leading position in an industry with potential to grow. In North America approximately 28.6 million households camp at least once a year, but only 22% of them are RV campers. In addition, the current demographic is favourable with baby boomers reaching retirement age (a key target market) as well as young campers being a growing market. Thor has the widest range of products to offer from several national brands, a strong dealer network and a prudent capital allocation strategy. It has been

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profitable every year since its founding in 1980 and this year yet again the experienced management team has demonstrated the ability to deliver solid results reiterating our confidence in this business.

THOR	2016	2017	% Change
Revenues			
Revenue ex. Jacyo	4,478	5,328	18.98%
Jacyo	105	1,919	NM
Total revenue	**4,478**	**7,247**	**61.84%**
EBIT	392	561	43.11%
Net Income	555	720	29.73%
Diluted EPS	10.60	13.58	28.11%
Margins	**2016**	**2017**	**% Change**
Gross Margins			
Margin ex. Jacyo	16.0	15.4	-3.75%
Jacyo	8.4	11.5	37%
EBIT Margin	8.6%	7.7%	-10.47%

Varian

Industry	Medical Appliances & Equipment
Shareholding	7%
Investment cost (US$)	349,000
Value	4,45,000 (+28%)
Holding Period (years)	2.6 years

Varian is a world's leading manufacturer of radiation therapy devices for treating cancer. It has over 6,500 employees with 70 sales and support offices around the globe. Its revenue for fiscal year 2017 was US $ 2.7 billion and a market cap of $10.2 bn.

Key Highlights:

1- **Growing service revenue helps grow the top line while the company strengthens its balance sheet:**

The company's revenues of $2.7 billion was up 2% compared to 2016, while its operating income and EPS was down 10% and 9% respectively. North America accounted for 52% of its revenue and grew by 4% while EMEA was down by 5%. Several international markets grew double digits- BRIC markets grew at 16% while China maintained market leadership position with robust double-digit growth. Its growing service business, accounting for 42% of revenue, was up by 7% while hardware product revenue was down by 2%. Although the gross margin was up 100 basis point due favourable product mix (higher service revenue which has higher gross margin) and supply chain efficiencies, the increased spending in R&D (up 5%) and increased SG&A spend (up 26% -increased employ related cost with opening of a new proton centre) led to the operating margin contraction by 210 basis points to 14.7%- underscoring the fact that margin reduction was driven by spending rather than pricing pressure. Despite muted revenue growth, the orders grew at a healthy rate of 7% to $ 3 bn, while the company has a healthy yearend backlog of $3.5 bn (up 10%).
The balance sheet was strengthened as the company paid off its long-term debt of $350 million. The cash flow from operations increased 14% and it maintained operational efficiency with its cash flow from operations as a percentage of net income at 160% and return on capital of 25%.

2- Spins-off the X-ray business of Varex: The x-ray business, which accounted for 20% of the company revenue was spun off as an independent company in Q2 of this year. The two businesses were very different as the X-ray business operates in a highly competitive, price sensitive OEM market while Varian radiation operates in a high margin end-customer driven industry with a duopoly position. This spin-off, thus, has enhanced the quality of the new Varian business which can focus exclusively on the more profitable Oncology products.

3- **Strengthened the industry leadership and expanding the addressable market by launching new products**:

Varian introduced two new products this year - Halcyo and HyperArc. These are not only more precise but also more cost effective and well suited especially for the growing customers in the emerging markets as they have faster installation times, smaller footprints, and greater ease of operation. Carian has received its first 50 orders of Halcyon from across 15 different countries. In addition, the company launched products in cancer care coordination and operating information systems, such as Eclipse treatment planning system to allow clinicians to create more precise treatment plans quickly and 360 Oncology cloud based, oncology-focused operating platforms, enabling better, more informed decisions by the multidisciplinary teams. Entering this market increases the company's addressable market as the customer care products market is estimated to be $2 billion and is expected to grow at a double-digit growth rate to $6 billion over the next 5 years. Another innovative move was to sign a strategic deal with PetCure to supply 6 Halcyon units for a veterinary oncology network. It is interesting to note that there are 180 million pets in the U.S., and 12 million diagnosed with cancer, which happens to be almost the same number of patients that are diagnosed with cancer in the U. S.

Evaluation:

Varian has a 55% share of the $5 billion global radiation oncology market and has gained 1% market share this fiscal year. The industry fundamentals remain strong as radiation therapy remains one of the most cost-effective approaches to cancer care. With the increasing ageing population and early detection of cancer, this market is expected to grow at about 4% CAGR to $6 billion over the next 5 years. In addition, by combining the core radiation oncology market with new addressable opportunities, Varian will operate in markets projected to be $12 billion in the next 5 years. Elkta is the only other global competitor with about 35% market share, and believe Varian continues to maintain its competitive strength with its financial discipline, technologically superior product portfolio, history of innovations and growing presence in the global growth market.

VARIAN	2016	2017	% Change
Revenue	**2,622**	**2,668**	**1.75%**
Product Revenue	1,584	1,556	-1.77%
Service Revenue	1,038	1,113	7.23%
Adj . EBIT	436	393	-9.86%
Net Income	327	289	-11.64%
Adj. EPS	**3.40**	**3.10**	-8.79%
Margins	**2016**	**2017**	**% Change**
Gross Margin	42.3%	43.3%	2.36%
EBIT Margin	16.6%	14.7%	-11.45%

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Appendix:

ACCENTURE PLC (in Million USD)												
Fiscal year ends in August. USD in millions	**2008-08**	**2009-08**	**2010-08**	**2011-08**	**2012-08**	**2013-08**	**2014-08**	**2015-08**	**2016-08**	**2017-08**	**10 Year CAGR**	**5 Year CAGR**
Total Sales	25,314	23,171	23,094	27,353	29,778	30,394	31,875	32,914	34,798	36,765	4%	5%
Op EBIT	3,012	2,644	2,915	3,470	3,872	4,339	4,301	4,500	4,810	5,142	6%	4%
PAT	2,202	1,937	2,060	2,553	2,825	3,459	3,176	3,572	3,501	3,831	6%	3%
EPS Diluted	2.06	2.02	2.32	3.06	3.51	4.47	4.25	4.94	4.89	5.52	12%	5%
EBITDA	3,503	3,142	3,390	3,984	4,465	4,932	4,921	5,146	5,539	5,944	6%	5%
Margins											**10 Year AVG**	**5 Year AVG**
Gross Margin	28%	30%	31%	31%	30%	31%	30%	30%	30%	30%	30%	30%
EBITDA Margin	14%	14%	15%	15%	15%	16%	15%	16%	16%	16%	15%	15%
EBIT Margin	12%	11%	13%	13%	13%	14%	13%	14%	14%	14%	13%	13%
PBT Margin	12%	12%	13%	13%	13%	14%	13%	14%	14%	14%	13%	13%
YoY Growth											**10 Year AVG**	**5 Year AVG**
Sales	18%	-8%	0%	18%	9%	2%	5%	3%	6%	6%	6%	4%
Op EBITDA	19%	-10%	8%	18%	12%	10%	0%	5%	8%	7%	8%	6%
Op EBIT	21%	-12%	10%	19%	12%	12%	-1%	5%	7%	7%	8%	6%
Op PBT	19%	-14%	9%	21%	11%	11%	-1%	4%	6%	8%	7%	6%
EPS	43%	-2%	15%	32%	15%	27%	-5%	16%	-1%	13%	15%	10%
Operational Ratios											**10 Year AVG**	**5 Year AVG**
Days sales Outstanding	38	41	37	38	38	38	41	42	41	42	40	41
Balance Sheet											**10 Year AVG**	**5 Year AVG**
Cash	3,603	4,542	4,838	5,701	6,641	5,632	4,921	4,361	4,906	4,127		
Gross Debt	2	0	1	-	0	26	26	26	24	22		
Current Asset	9,159	8,991	9,564	11,471	12,588	11,844	11,904	10,700	11,976	12,097		
Current Liability	6,848	6,239	6,568	7,907	8,109	8,161	8,158	8,491	8,879	9,824		
op capital employed	2,040	1,228	1,127	1,384	1,595	1,870	2,806	1,942	2,628	2,964	1958	2442
op capital employed incl goodwill	2,880	2,053	1,968	2,516	2,811	3,689	5,202	4,871	6,237	7,966	4019	5593
Net Worth	2,541	3,386	3,275	4,351	4,624	5,428	6,285	6,648	8,189	9,710		
Op ROCE %	122%	97%	151%	181%	171%	184%	126%	141%	143%	130%	145%	145%
Op ROCE incl goodwill	80%	64%	89%	102%	96%	98%	66%	67%	59%	51%	77%	68%
Cash Flow												
Cash provided by Operation	2,803	3,160	3,092	3,442	4,257	3,303	3,486	4,092	4,575	4,973		
Investment in Fixed asset	(320)	(243)	(238)	(404)	(372)	(370)	(322)	(395)	(497)	(515)		
FCF	**2,483**	**2,917**	**2,853**	**3,038**	**3,885**	**2,934**	**3,164**	**3,697**	**4,079**	**4,458**		
Liquidity Ration												
Net Debt/EBITDA	-103%	-145%	-143%	-143%	-149%	-114%	-99%	-84%	-88%	-69%		
Net Debt/Equity	10%	13%	12%	11%	13%	10%	10%	11%	12%	12%		
Op cash flow/Net income	165%	199%	174%	151%	167%	104%	119%	122%	140%	137%		
FCF/sales	11%	14%	13%	12%	14%	10%	11%	12%	12%	13%		
FCF Growth	10%	17%	-2%	6%	28%	-24%	8%	17%	10%	9%		

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Thor Industries, Inc. (THO)													
Fiscal year ends in July. USD in millions except per share	**2007-07**	**2008-07**	**2009-07**	**2010-07**	**2011-07**	**2012-07**	**2013-07**	**2014-07**	**2015-07**	**2016-07**	**2017-07**	**10 Year CAGR**	**5 Year CAGR**
Net sales	2856	2641	1522	2277	2340	2640	3242	3525	4007	4582	7247	12%	22%
Operating Profit	185	139	18	166	127	161	217	248	291	383	561	17%	27%
EBT	197	152	23	171	132	165	222	253	293	383	556	15%	26%
Net income	135	93	17	110	106	122	153	179	199	257	374	17%	25%
Adjusted EBITDA	199	162	41	180	153	186	244	275	322	445	659	17%	28%
Adjusted Diluted EPS	4.84	3.43	0.85	4.16	3.57	4.39	6.00	6.86	7.96	10.60	13.58	9%	25%
Margins												**10 Year AVG**	**5 Year AVG**
Gross Margin	13%	12%	10%	13%	13%	12%	13%	13%	14%	16%	14%	13%	14%
EBITDA Margin	7%	6%	3%	8%	7%	7%	8%	8%	8%	10%	9%	7%	8%
EBIT Margin	6%	5%	2%	7%	6%	6%	7%	7%	7%	9%	8%	6%	7%
PBT Margin	14%	12%	4%	15%	12%	13%	14%	15%	15%	18%	14%	13%	15%
YoY Growth												**10 Year AVG**	**5 Year AVG**
Sales		-8%	-42%	50%	3%	13%	23%	9%	14%	14%	58%	13%	24%
Op EBITDA		-19%	-75%	339%	-15%	21%	32%	12%	17%	38%	48%	40%	30%
Op EBIT		-22%	-81%	507%	-23%	25%	37%	13%	17%	35%	43%	55%	29%
Op PBT		-21%	-80%	434%	-17%	23%	33%	13%	17%	35%	26%	49%	24%
EPS		-29%	-75%	389%	-14%	23%	37%	14%	16%	33%	28%	42%	26%
Operational Ratios												**10 Year AVG**	**5 Year AVG**
Days Inventory outstanding		25	34	23	29	29	22	22	24	30	25	26	25
Days Sales Outstanding		21	30	22	26	27	27	27	25	26	22	25	25
BalanceSheet												**10 Year AVG**	**5 Year AVG**
Cash	172	190	222	248	215	219	237	289	183	210	223		
Gross Debt	-	-	-	-	-	-	-	-	-	360	145		
Current Asset	706	528	604	602	624	685	831	844	776	1,017	1,180		
Current Liability	277	248	184	257	279	311	362	371	378	652	781		
Op capital employed	586	433	493	464	513	538	613	643	632	709	824	586	684
Op capital employed incl goodwill	751	591	641	615	758	783	851	900	944	1,087	1,202	837	997
Net Worth	766	700	705	657	836	851	893	978	1,065	1,265	1,577		
ROCE %		38%	10%	46%	40%	45%	55%	58%	67%	83%	94%	54%	71%
Op ROCE incl goodwill		28%	8%	35%	29%	31%	39%	42%	46%	55%	63%	35%	42%
Cash Flow													
Cash provided by Operation	233	122	49	101	115	119	145	149	248	341	419		
Investment in Fixed asset	(14)	(14)	(6)	(12)	(34)	(10)	(24)	(30)	(42)	(52)	(115)		
FCF	**219**	**108**	**43**	**88**	**81**	**109**	**121**	**119**	**206**	**289**	**304**		
Liquidity Ratio													
Net Debt/Equity	-22%	-27%	-31%	-38%	-26%	-26%	-27%	-30%	-17%	12%	-5%		
Net Debt/EBITDA	-87%	-117%	-541%	-138%	-141%	-118%	-97%	-105%	-57%	34%	-12%		
FCF/Sales	8%	4%	3%	4%	3%	4%	4%	3%	5%	6%	4%		
FCF/Income	81%	56%	91%	40%	41%	46%	38%	32%	48%	52%	42%		
FCF Growth		-51%	-60%	106%	-8%	34%	11%	-2%	73%	41%	5%		

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VARIAN MEDICAL SYSTEMS INC (VAR)						
Manufactures medical devices and software for treating cancer and other medical conditions with radiotherapy, radiosurgery, proton therapy and brachytherapy						
Fiscal year ends in September. USD in millions except per share data.	**2013-09**	**2014-09**	**2015-09**	**2016-09**	**2017-09**	**5 Year CAGR**
Revenues:						
Product	1,436	1,447	1,494	1,584	1,556	2%
Service	865	943	994	1,038	1,113	6%
Total Sales	**2,301**	**2,390**	**2,488**	**2,622**	**2,669**	**4%**
Op EBITDA	481	438	465	516	470	-1%
Op EBIT	418	400	396	436	393	-2%
PAT	291	303	312	327	289	0%
Diluted EPS	3.98	3.67	4.10	4.19	3.10	-6%
Margins						**5 Year AVG**
Gross Margin	54%	54%	41%	42%	43%	47%
EBITDA Margin	21%	18%	19%	20%	18%	19%
EBIT Margin	18%	17%	16%	17%	15%	16%
PBT Margin	18%	17%	16%	17%	15%	17%
YoY Growth						**5 Year AVG**
Sales	-1%	4%	4%	5%	2%	3%
Op EBITDA	-27%	-9%	6%	11%	-9%	-5%
Op EBIT	-30%	-4%	-1%	10%	-10%	-7%
Op PBT	-29%	-4%	0%	10%	-10%	-7%
EPS	5%	-4%	6%	2%	-36%	-5%
Operational Ratios						**5 Year AVG**
Days Inventory outstanding	106	114	146	149	128	129
Days sales Outstanding	109	108	109	114	116	111
Balance Sheet						**5 Year AVG**
Cash	1,118	849	846	844	716	
Gross Debt	450	388	338	288	-	
Current Asset	2,705	2,494	2,393	2,616	2,191	
Current Liability	1,161	1,202	1,377	1,614	1,551	
Goodwill	225	241	284	295	222	
Op capital employed	972	1,020	799	800	446	807
Op capital employed incl goodwill	1,422	1,501	1,366	1,389	890	1,314
Net Worth	1,714	1,616	1,712	1,741	1,495	
Op ROCE %	34%	30%	34%	41%	46%	37%
Op ROCE incl goodwill	22%	21%	22%	24%	25%	23%
Cash Flow						
Cash provided by Operation	455	449	470	356	399	
Investment in Fixed asset	(76)	(90)	(91)	(80)	(59)	
FCF	**379**	**359**	**378**	**276**	**340**	
Liquidity Ratios						
Net Debt	(668)	(462)	(508)	(556)	(716)	
Net Debt/Equity	-39%	-29%	-30%	-32%	-48%	
D/E	26%	24%	20%	17%	0%	
FCF/Sales	16%	15%	15%	11%	13%	
FCF/Net Income	232%	242%	179%	111%	136%	
FCF Growth	-12%	-5%	5%	-27%	23%	

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