

First American Financial (FAF)
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TARGET INVESTMENT PHILOSOPHY

VALUE CREATION

Does management understand and execute on creating economic value?

CAPITAL ALLOCATION

Does management thoughtfully weigh dividends, buybacks, M&A, and debt repayment?

INTEGRITY

CULTURE

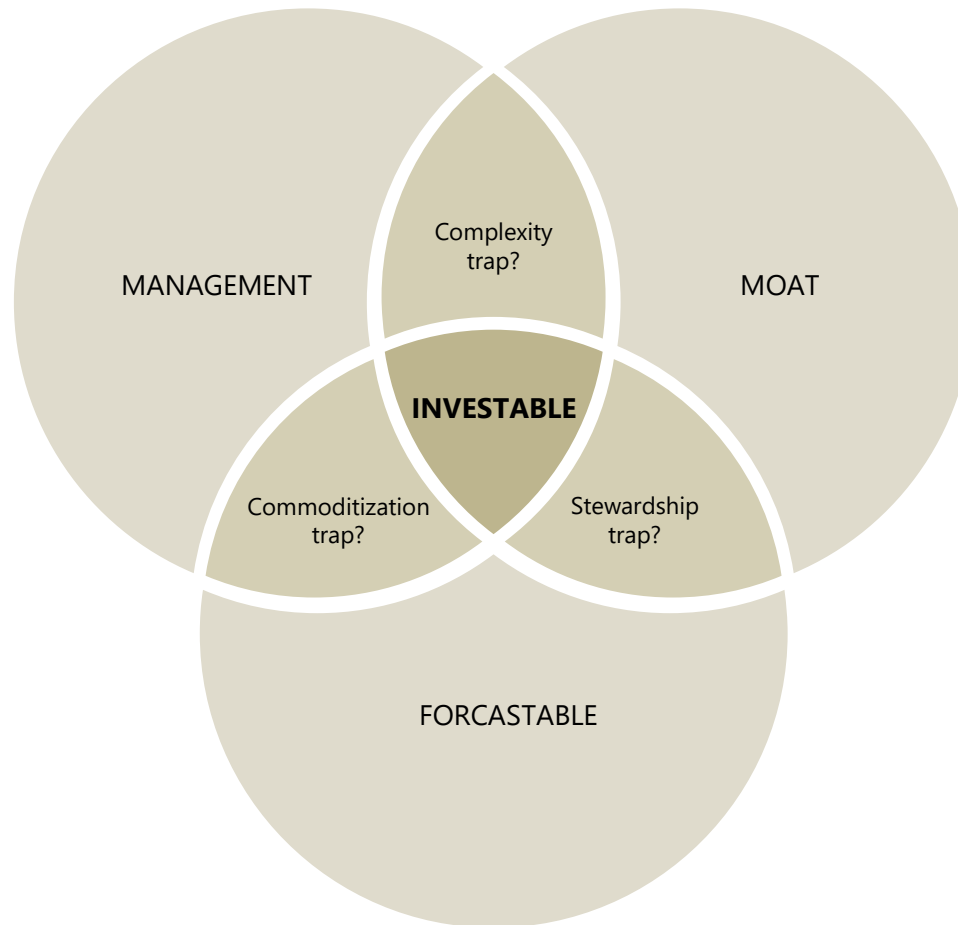
STAKEHOLDER ANALYSIS

ROIC & GROWTH FOCUS

VISIONARY/OPTIMIZER

UNDERSTANDABLE

Do the business dynamics of the company match our investment team's expertise?



DURABILITY

How likely will the moat be intact in 10 years?

RELEVANCE

How likely will customers value the product/service in 10 years?

IDIOSYNCRATIC BUSINESS

PRICING POWER

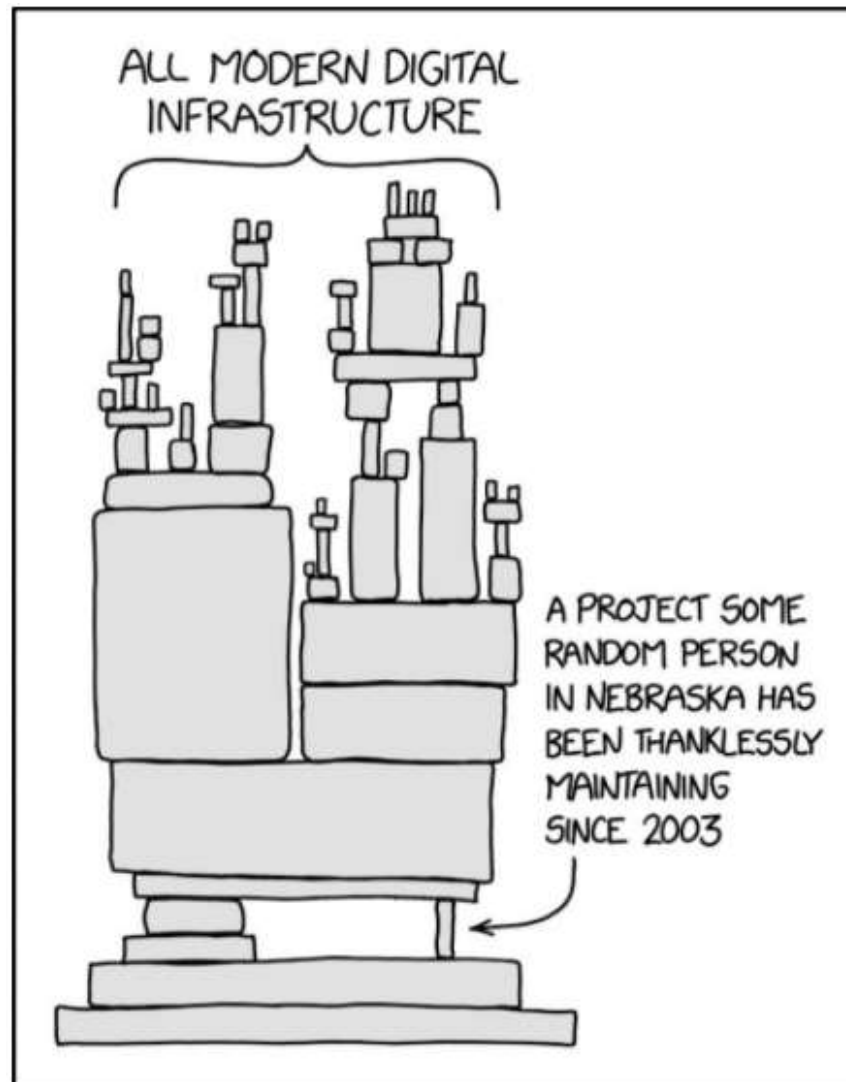
REINVESTMENT MOAT VS LEGACY MOAT

EMERGING MOAT

FORCASTABILITY

Does the business lend itself to accurate forecasting of long-term outcomes?

- First American Financial
 - \$5.8 billion market cap title insurance company.
 - What is title insurance?
 - Along with Fidelity National has well over half of the US market.
 - Idiosyncratic business: Better understood as offering a fee based financial service rather than insurance. Title loss ratio just 4% to 5%.
 - They are a tollbooth offering a mission critical service at a cost that is a tiny portion of the overall transaction.
 - Only covered by five analysts. Typically, only one or two update estimates intra-quarter. No updates to 2020 revenue estimates from end of April to mid July.
 - No guidance. Prepared remarks often last just 10-15 minutes.
 - But... you cannot complete a purchase of a home with a mortgage without title insurance.



(Source: XKCD)

“Consistent with our people first philosophy, we have committed to our employees that we will not make any layoffs through the end of the second quarter. We strongly believe that this is the right approach given these unique circumstances.

We’ve taken a long-term perspective in all this and although this action will negatively impact our short-term results, we believe the benefits to our people, our customers and ultimately our shareholders will be worth the investment.”

First American Financial, April 23, 2020

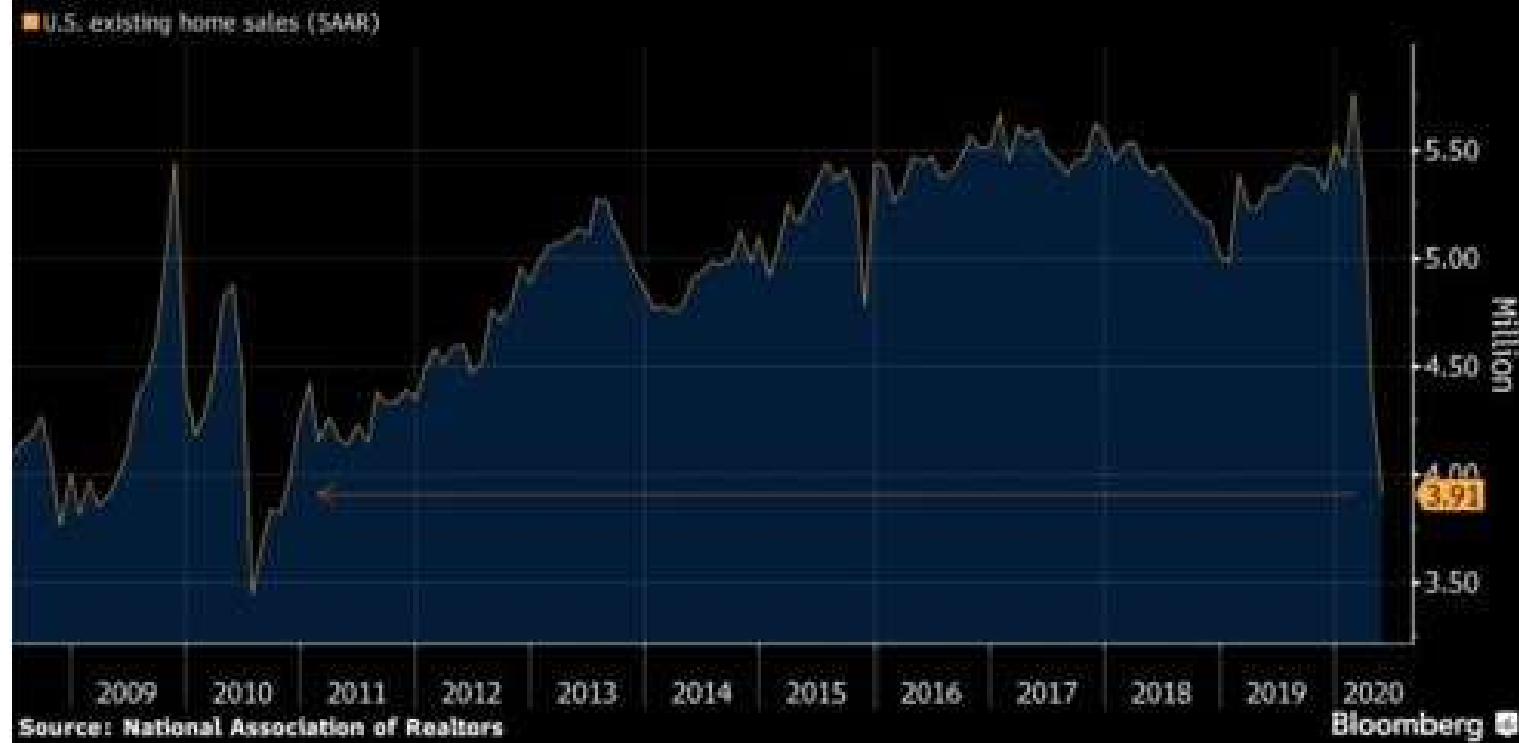
“During the month of April, we made the difficult decision to reduce staffing in our field operations by 18% and in our corporate environment by 11%. We expect the annualized savings from these reductions to be approximately \$200 million. We will continue to closely monitor the market and will utilize all available levers we can to manage our expenses, mitigate margin degradation and maximize our cash flow.

We remain committed to maximizing profitability in all market environments.”

Fidelity National, April 23, 2020

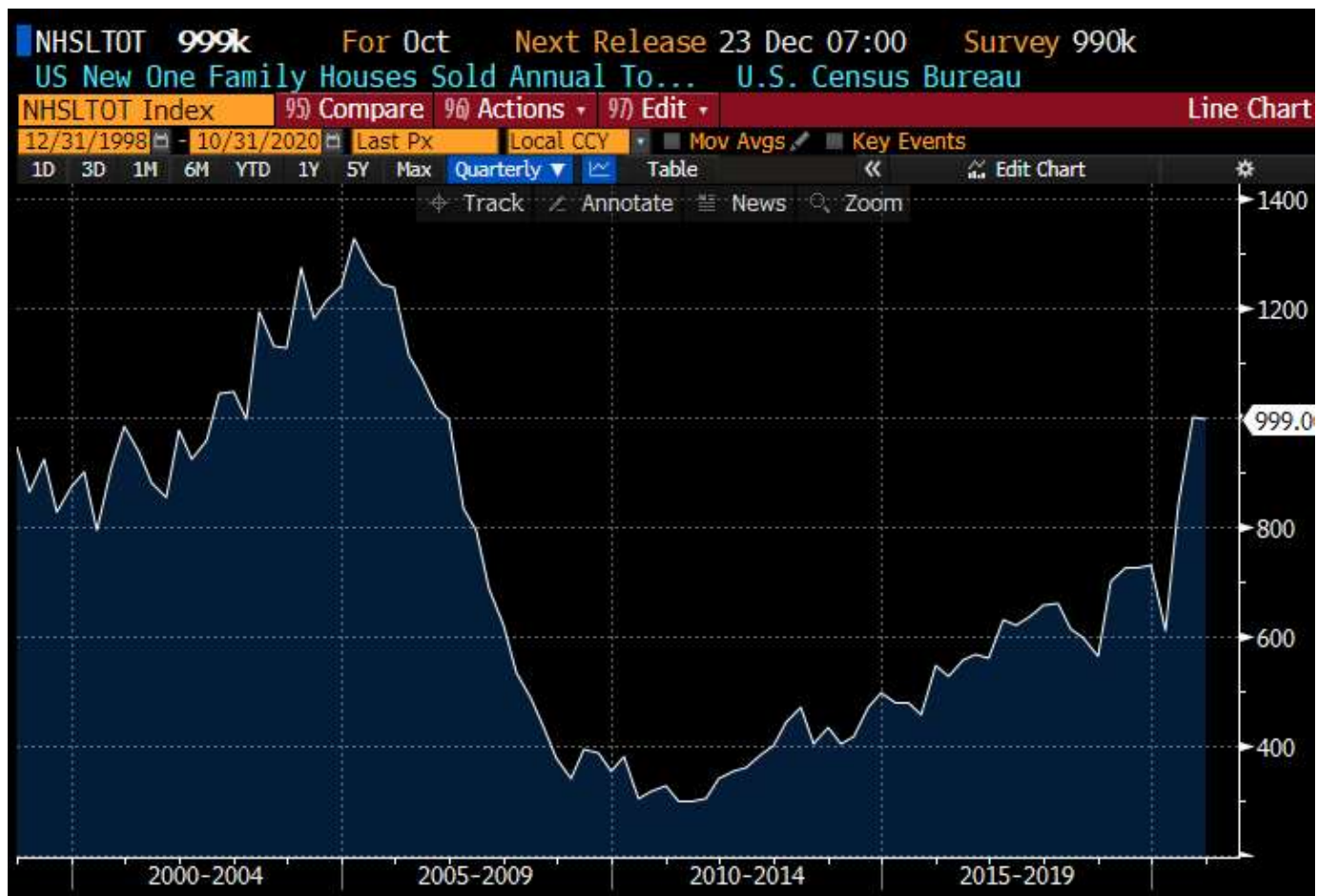
Housing Slump

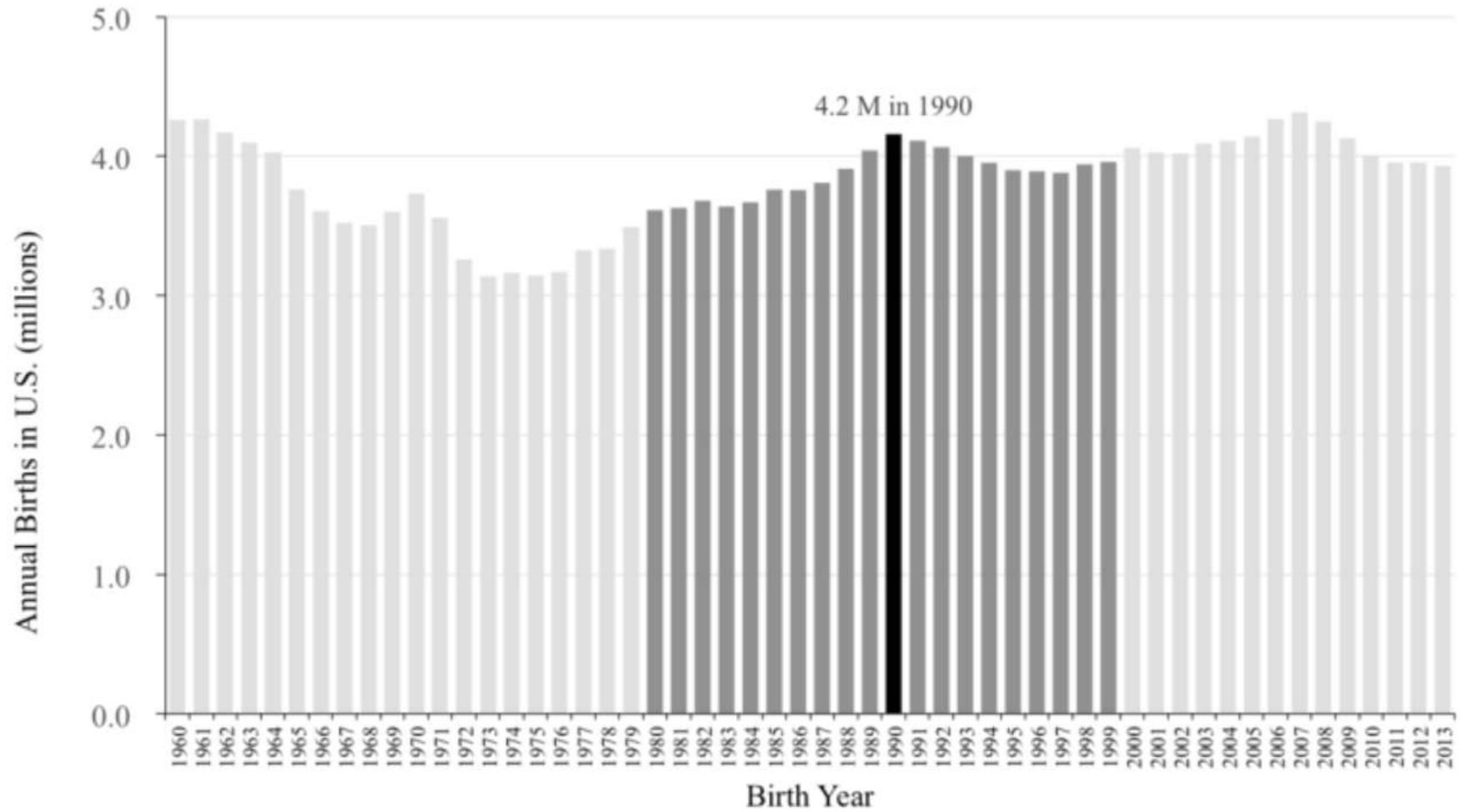
U.S. existing home sales tumble to lowest since 2010



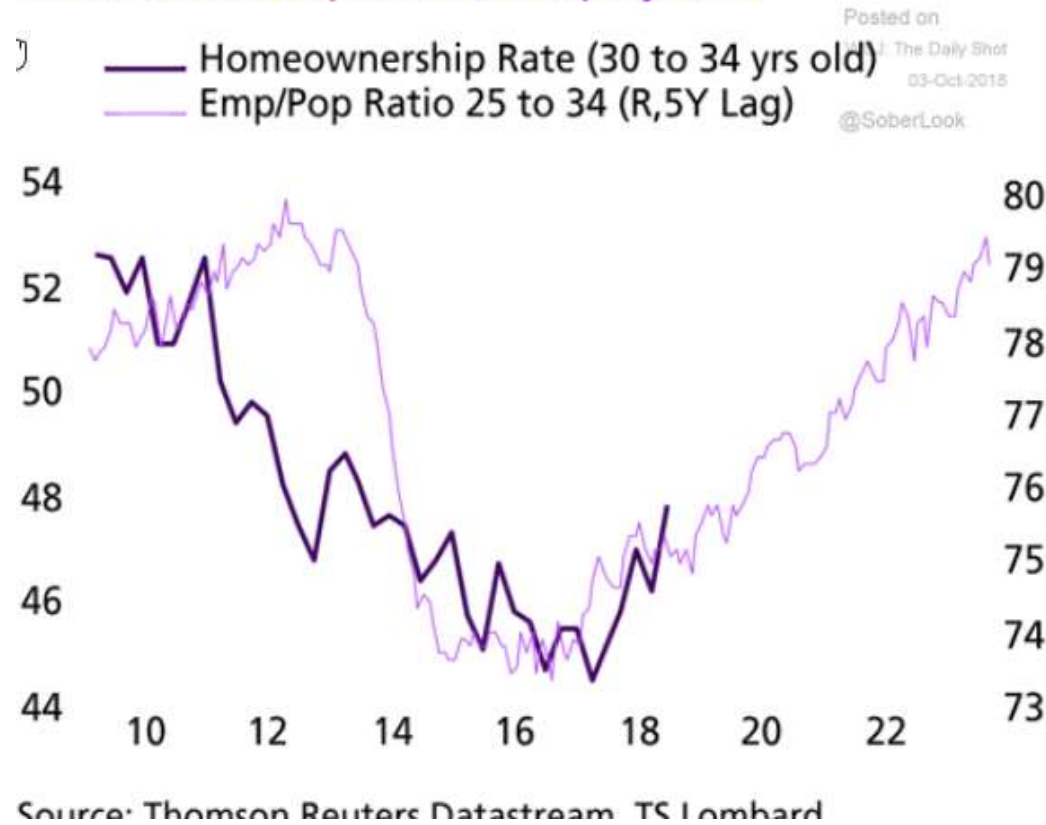






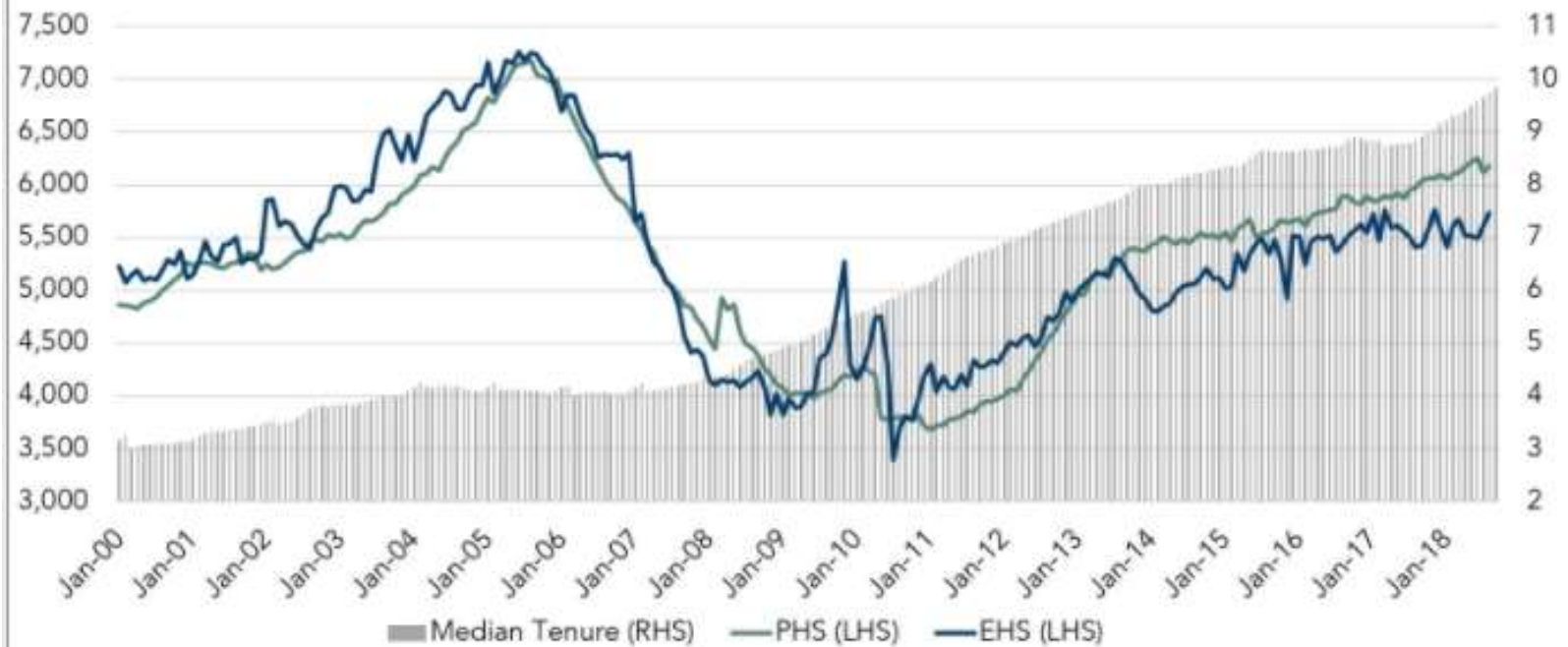


Homeownership Follows Employment



Tenure Duration Impacts Home Sales

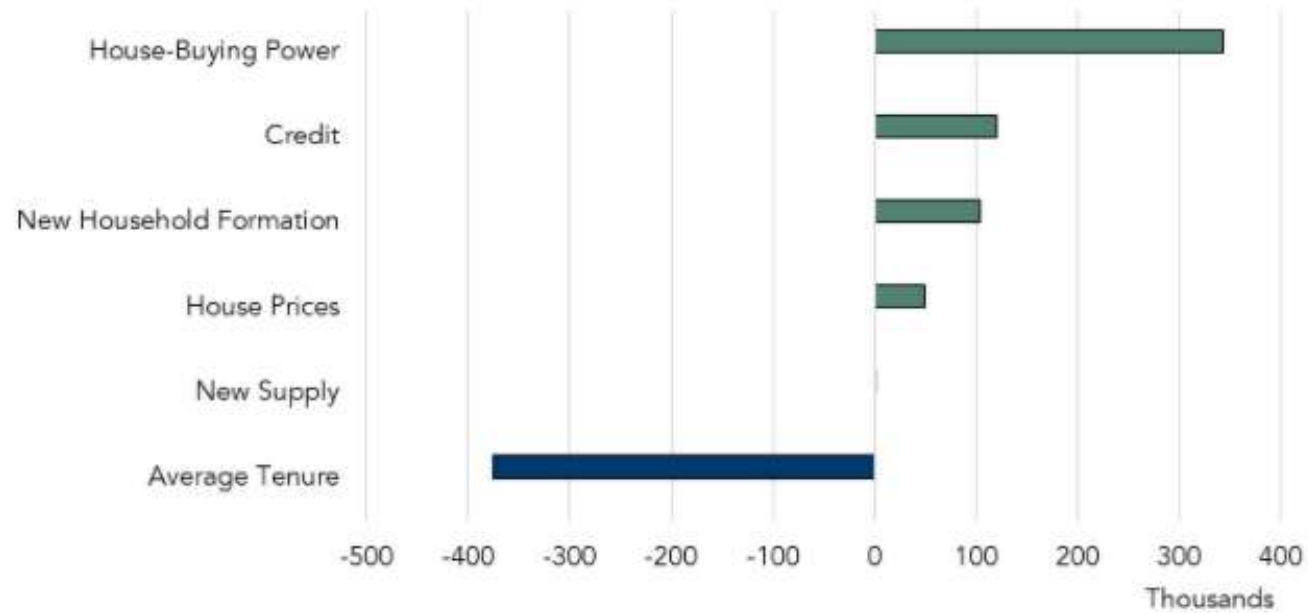
Existing and Potential Home Sales ('000s, SAAR), Median Homeowner Tenure Length (Years)



Source: DataTree by First American, NAR, FRB St. Louis, First American Calculations, Sep. 2018

Housing Market Potential Starts the Year Off Strong

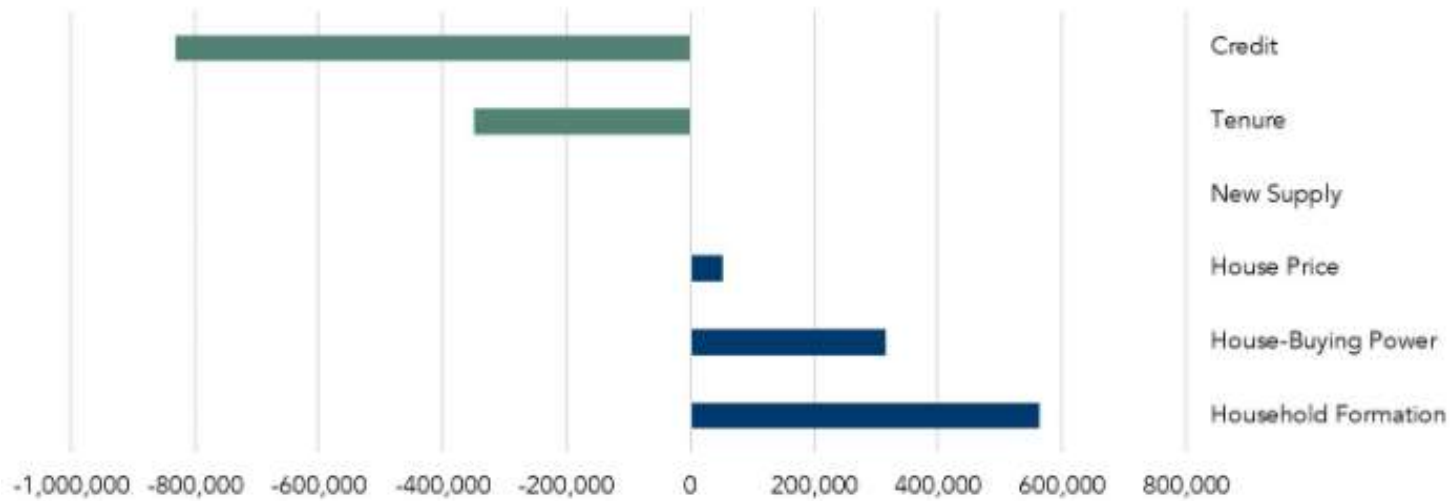
Number of Sales, Yearly Change Contributed by Components in Jan. 2020



Source: DataTree by First American, First American Calculations, NAR, FRB St.Louis, Jan. 2020

You Can't Buy What's Not For Sale

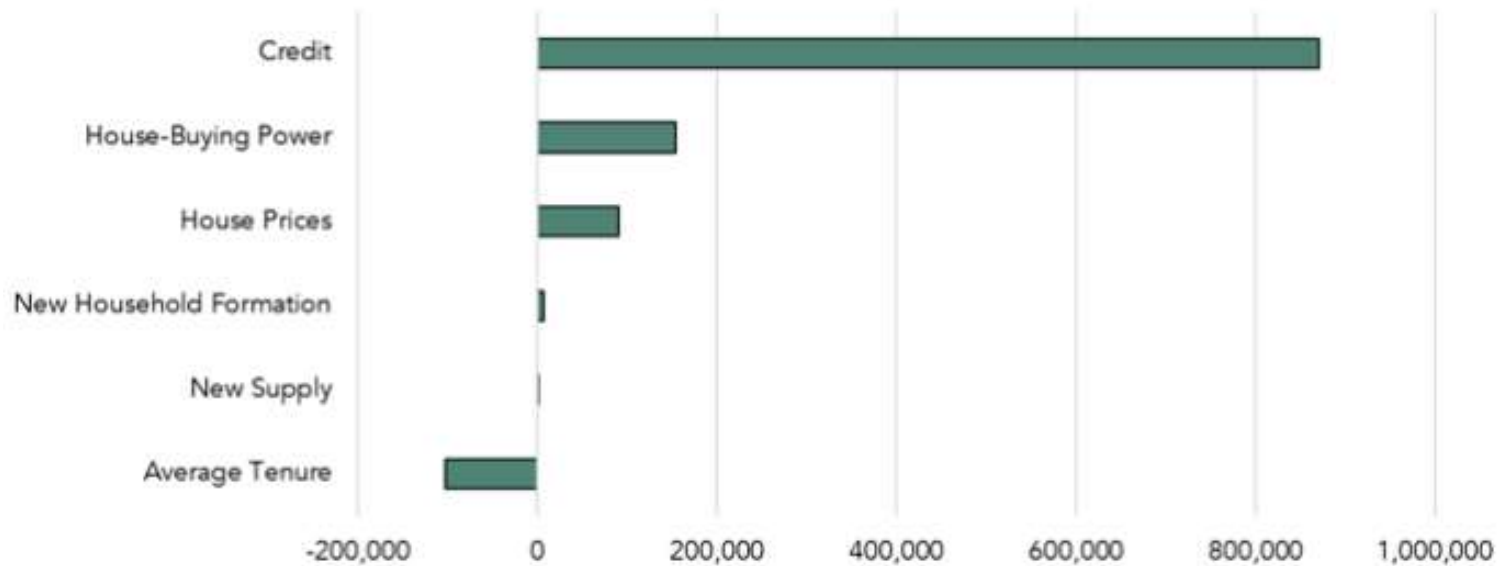
Number of Sales, Yearly Change Contributed by Components



Source: DataTree by First American, First American Calculations, NAR, FRB St.Louis, May 2020

What a Difference Six Months Makes

Number of Sales, 6-Month Change Contributed by Components



Source: DataTree by First American, First American Calculations, NAR, FRB St. Louis, Oct. 2020



- Segment Revenue
 - Residential Purchase
 - 2019: \$945 mil
 - 2020: Up 5%-10%
 - Next 5 years: Mid to high single digit sales + low single digit price (maybe much higher?)
 - Commercial:
 - 2019: \$770 mil
 - 2020: down ~20%
 - Next 5 years: Takes a few years to recover, then back to GDP like growth
 - Refinancing
 - 2019: \$300 mil
 - 2020: up 100%+
 - Next 5 years: Persistent decline as financial incentive to refi fades
 - Interest Income
 - Your call
 - Information Services
 - Wild card

- Summary
 - Small-mid cap, under covered company
 - Provides mission critical, but low cost service that enables trillions of dollars of transactions
 - The housing “boom” of the past decade was just about price. Low supply didn’t meet demand, causing prices to rise.
 - Pent up demand to move as Americans have been “stuck” in their homes, staying twice as long as pre-housing crisis normal.
 - COVID + low interest rates + high owner equity + remote work = housing activity boom
 - 13x 2019 EPS is \$75 or 50% upside
- Risks
 - iBuyer market share
 - Outstanding cyber security case

DISCLOSURES

2020 Q3 Contributors and Detractors to Absolute Return Data							
Description	Symbol	Average Weight	Contribution	Description	Symbol	Average Weight	Contribution
Intuitive Surgical, Inc.	ISRG	6.44%	1.55%	Heico Corp. Class-A	HEI/A	2.83%	0.30%
Netflix, Inc.	NFLX	8.60%	1.14%	Landstar Systems, Inc.	LSTR	2.36%	0.26%
Mastercard Inc. Class-A	MA	6.21%	0.96%	Masimo Corp.	MASI	6.17%	0.26%
Home Depot, Inc.	HD	8.46%	0.94%	Broadridge Financial Solutions, Inc.	BR	4.90%	0.25%
Chipotle Mexican Grill, Inc.	CMG	3.80%	0.82%	First Republic Bank	FRC	7.43%	0.25%
NVR, Inc.	NVR	3.72%	0.82%	Paychex, Inc.	PAYX	3.66%	0.25%
Starbucks Corp.	SBUX	3.66%	0.58%	Fastenal Co.	FAST	2.24%	0.24%
Booking Holdings, Inc.	BKNG	6.62%	0.51%	Alphabet, Inc. Class-A	GOOGL	5.86%	0.18%
Nintendo Co LTD	NTDOY	1.92%	0.45%	First American Financial Corp.	FAF	3.29%	0.18%
Ferrari NV	RACE	5.34%	0.40%	Blackline, Inc.	BL	1.49%	0.12%
Charles Schwab Corp.	SCHW	4.76%	0.38%				

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