

bwm

VALUE INVESTING

S I A

Strategic Investment Advisors Group



Welcome to the Swiss Value Day 2024

Swiss Value Day 2024

- 09.00 **Welcome** by Alex Rauchenstein, CEO SIA and Urban Müller, Client Relations, BWM
- 09.05 **"Value Investing - Stars and Scars from 26 Years of Practice"** by Georg von Wyss, Portfolio Manager, BWM
- 09.30 **"Value: The Charlie Munger Way"** by Marcos Hernandez, CIO, SIA and Special Guest Grifols SA
- 10.00 **Fireside chat on Value Investing** moderated by Gregor Mast, Editor of The Market with Marcos Hernandez, CIO, SIA, Georg von Wyss, Portfolio Manager BWM, William Higgons, President, Indépendance AM and Stefan Rehder, Founder, Value Intelligence Advisors
- 10.45 **Coffee break**
- 11.00 **LG Household and Health Company**, presented by Stefan Rehder, Founder, Value Intelligence Advisors
- 11.20 **d'Amico Int. Shipping SA**, presented by William Higgons, President Indépendance, AM
- 11.40 **ISS A/S**, presented by Alex Rauchenstein, CEO, SIA
- 12.00 **Elis SA**, presented by Lars Jakob Selsas, Financial Analyst, BWM
- 12.30 **Buffet lunch**

BWM – A team of highly experienced investment professionals



Georg von Wyss, Portfolio manager
Founding partner 1997
BA in Economics & MA in English and
Comparative Literature, Columbia,
MBA, Amos Tuck School, Dartmouth



Pascal Prüss, Analyst
Deputy portfolio manager
With BWM AG since 2004
Lic. oec. publ. Zürich University, CIIA



Lars Selsås, Analyst
Deputy portfolio manager
With BWM AG since 2002
Lic. oec. HSG St. Gallen



Markus Kaussen, Analyst
With BWM AG since 2004
Lic. oec. HSG St. Gallen
CFA Charterholder



Daniel Jordan, Administration
With BWM AG since 2002
Lic. oec. publ. Zürich University



Urban Müller, Client relations
With BWM AG since 2022, Lic. oec.
HEC Lausanne, MSc Economics LSE
PhD HSG St. Gallen

Investment Boutique vs. Institutional

“We like what we do”



- **Swiss asset manager.** Regulated by FINMA. Based in Lachen (Lake of Zurich)
- **Value strategy, long-only**
- **Boutique type:** EUR 250 million AUM
- Team of 8 people with **4 investment professionals with more than 25 years of experience**
- **LTIF Classic**, created in 2002, and with a **9% p.a. for 20+ years**. **LTIF Natural Resources** seeks to generate value from the energy transition. **12% p.a. past 5Y.**
Mandates

Partners - Investment Experience



- **Marcos Hernandez Aguado, Managing Partner, CIO**
Head of Investments Committee and PM

- **Alex Rauchenstein,**
Managing Partner (IC)



- **Urs Marti, Partner, (IC)**
Natural Resources

- **Prof. Jose Carlos Jarillo,**
Founding Partner (IC)



**> 25 years
experience**

**Invested in
SIA Funds**

**Unconstrained
decision making**

The dominant theme in Markets today

THE THREE TYPES OF ARTIFICIAL INTELLIGENCE (AI)

GENERAL AI: Machines possessing the same characteristics of human intelligence, capable of reasoning and thinking just as we do. Such General AI machines remain in the realm of sci-fi and films.

MACHINE LEARNING: The practice of using algorithms "train" machine to parse data, learn from it, and then make a determination or prediction about something in the world.

NEURAL NETWORKS: These are inspired by understanding the brain's biology and the interconnections between neurons. Some machines trained via deep learning are already an improvement on work done by humans.

EXPRESS



Some years back it was autonomous driving



Value Investing - Stars and Scars from 26 Years of Practice

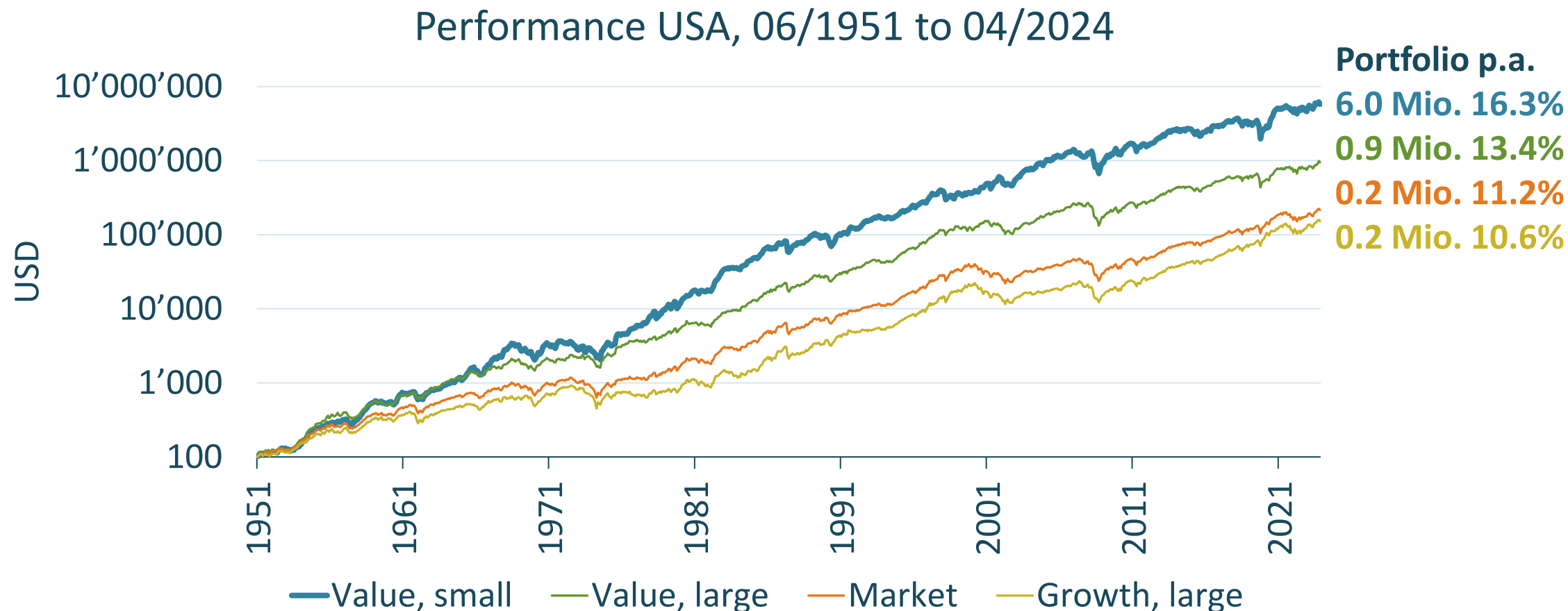
Swiss Value Day '24

Georg von Wyss, Portfolio Manager

Agenda

- Value outperforms, but not all the time
- Stars and scars: what makes a good value case

Value clearly beat the market long-term



Why value works – over the long term

- Mr. Market is irrational in the short term -
 - Thinks in stories, exhibits psychological biases such as extrapolating from the past, herding, overoptimism
 - Often ignores valuations but loves momentum
 - Professional investors are often subject to career risk
- Taking the long view opens opportunities – most shares are correctly valued most of the time (market efficiency)
- Process helps us be rational

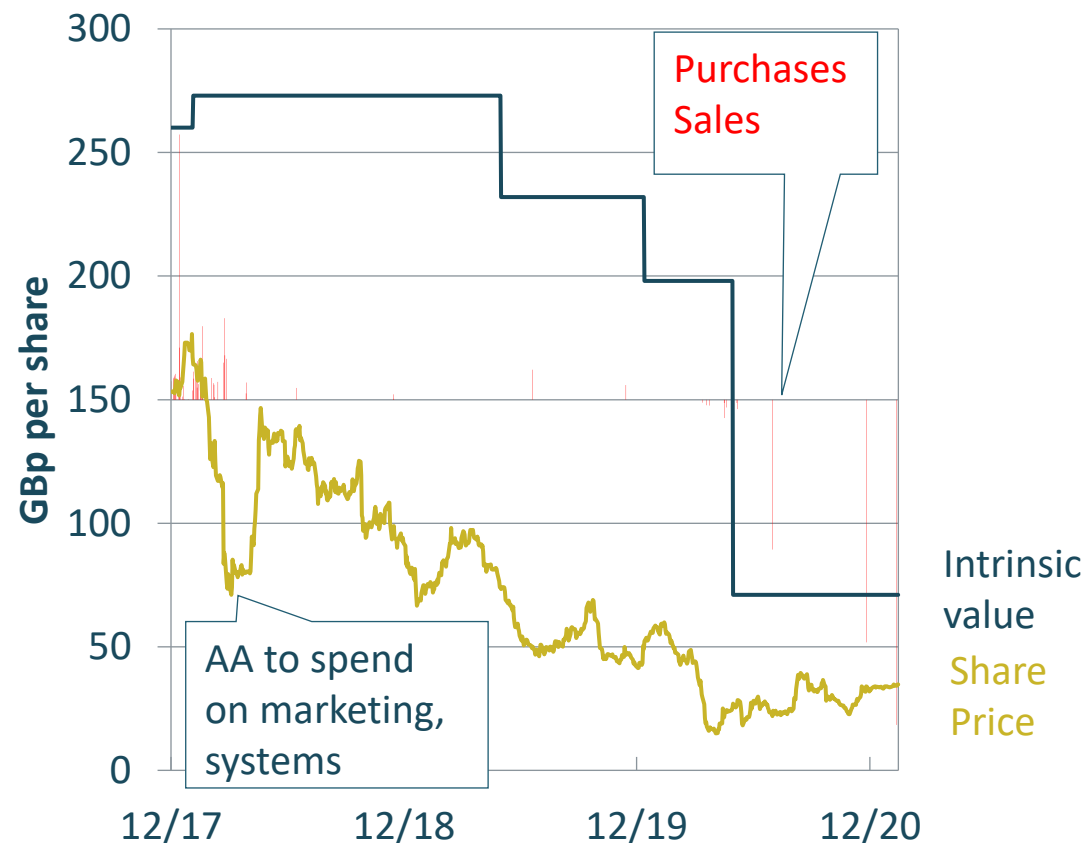
Where we find value investments

- Framework: it boils down to sales growth, margins and valuation
- A no-go: financial leverage
- Examples, both good and bad
 - Good and bad growth and margin estimates
 - «Asset plays» we recognized
 - A case where we were faster

Intrinsic value is the core of the BWM investment process

- Intrinsic value is a function of:
 - Normal valuation
 - Normal earnings = earnings power = cash generation
 - Growth
 - Margins
- Normal valuation and earnings are determined using
 - Company history
 - Industry comparables
- BWM purchases at around 60% of intrinsic value

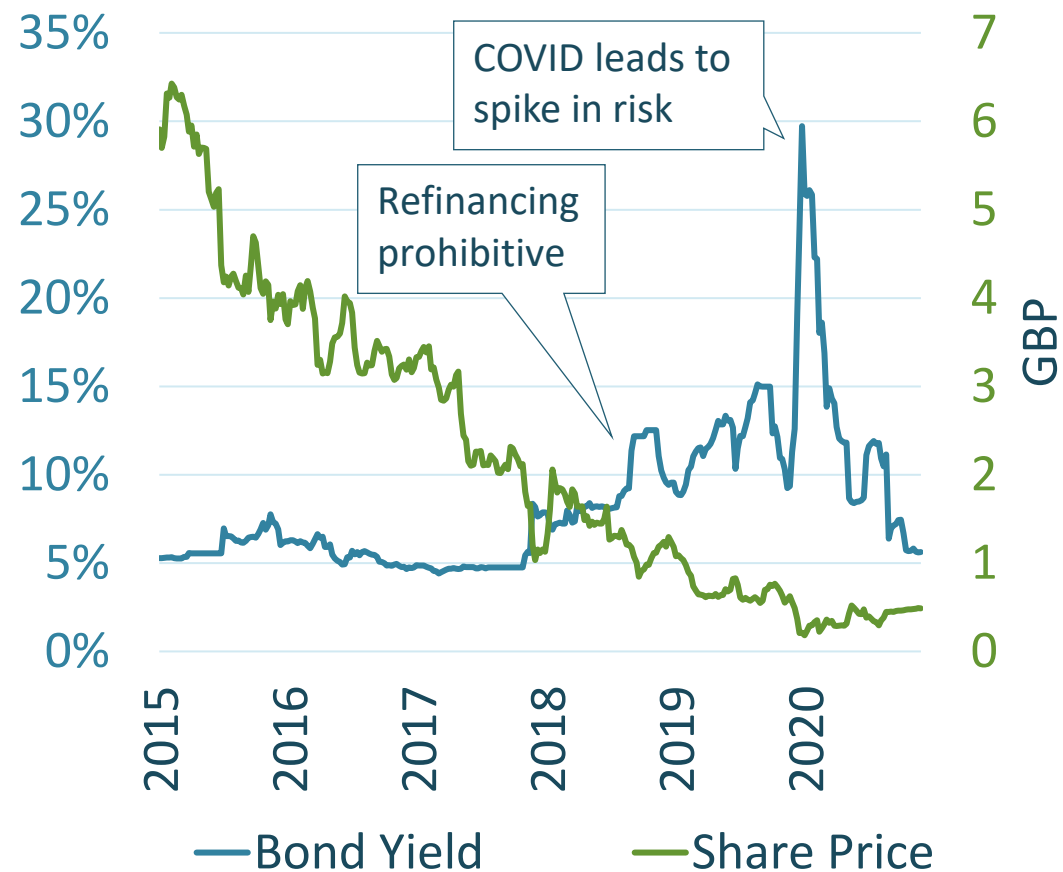
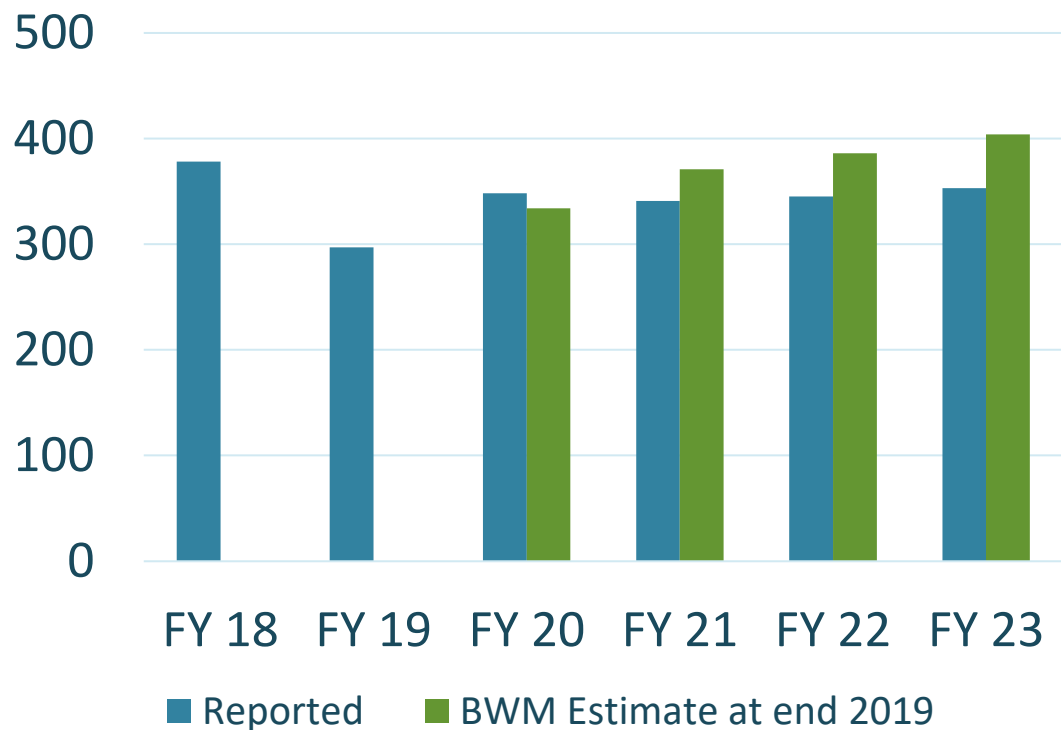
Financial leverage is a killer: AA Plc



- Roadside assistance is wonderful business, but Net debt/EBITDA 8.0x
 - After we bought, AA increased spending to keep share
 - Refinancing costs rose
 - Hedge fund took it over – we were forced to accept
- Debt, not operations, killed the stock

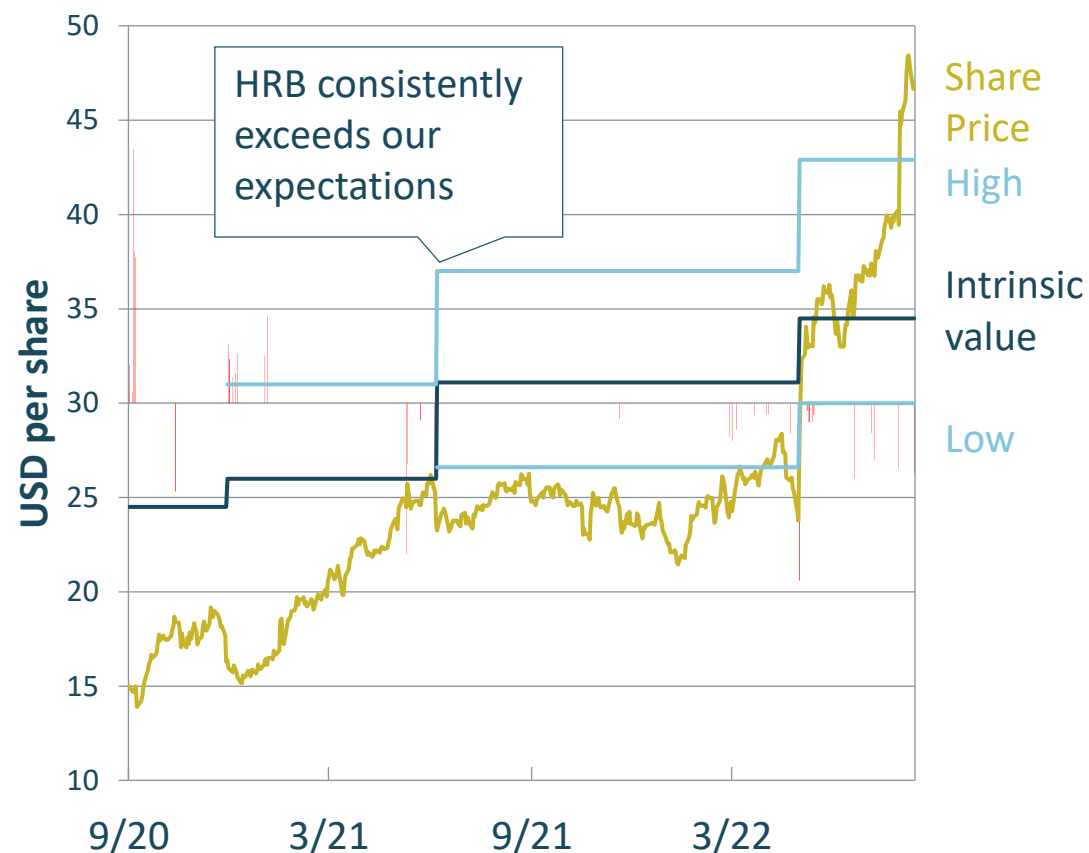
Debt reduces room to maneuver: Example AA

EBITDA, Jan. fiscal year



Source: Bloomberg, BWM, AA. Bond yield is of the 5.5% of 2022

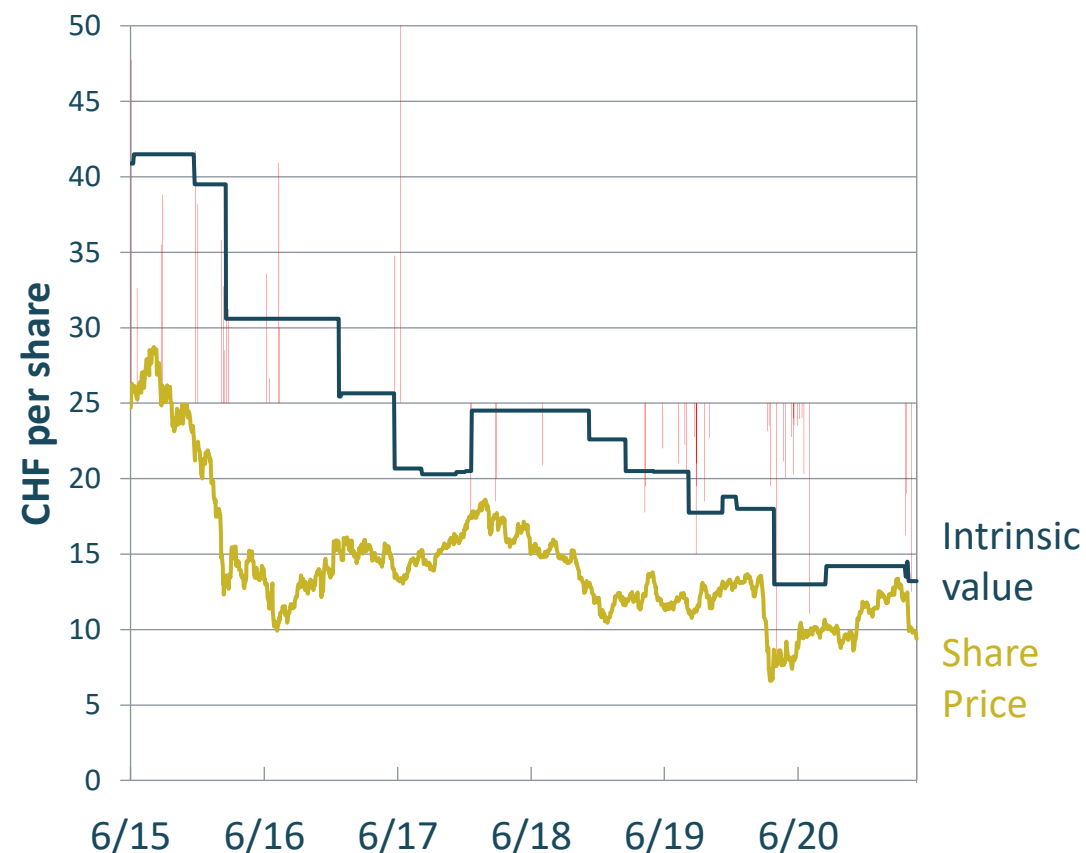
Estimating the growth rate better than others makes for winners: H&R Block



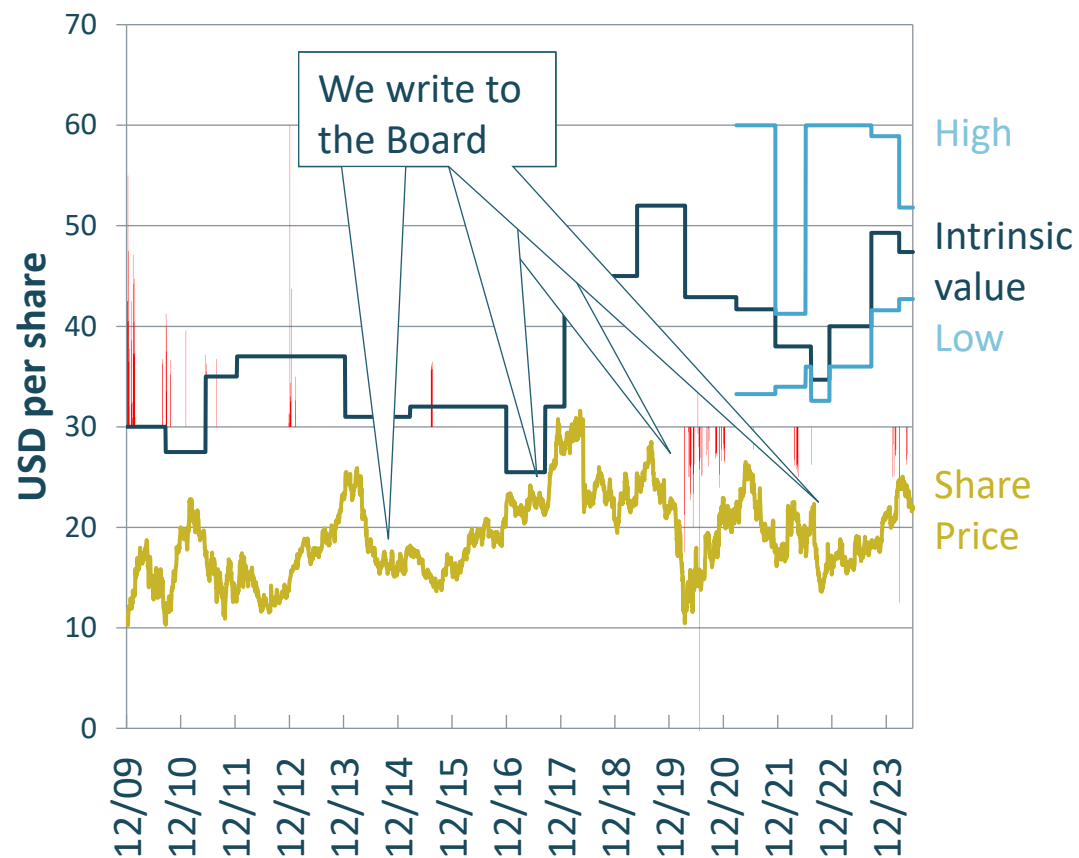
- H&R Block is a US tax preparer
- Lowered prices to regain market share
- Our Initial assumptions
 - Growth of -2% (market at -5 to -6%)
 - 9x PE (market at 6.6x)
- Ultimately: HRB reached its growth target of +3-6%. PE expanded
- Analysis can reveal flawed market assumptions

We overestimated margin potential: Credit Suisse

- We expected CEO Tidjane to improve cost structure
 - Hoped to realize the value of private and investment banks
 - But he reduced targets and raised capital
 - IB continued to rack up losses
- CS was cheap for a reason: value trap



Poor margins hide the value of an asset: Kelly Services



- Kelly provides temporary services
- Margins below industry average

Table 1, 2021 Conversion Rate

| | |
|----------------|-------|
| Adecco | 21.7% |
| Randstad | 22.5% |
| Manpower | 17.2% |
| TrueBlue | 13.4% |
| Kelly Services | 6.7% |

- In 2023 big cost cuts begun
- Patient engagement can create value

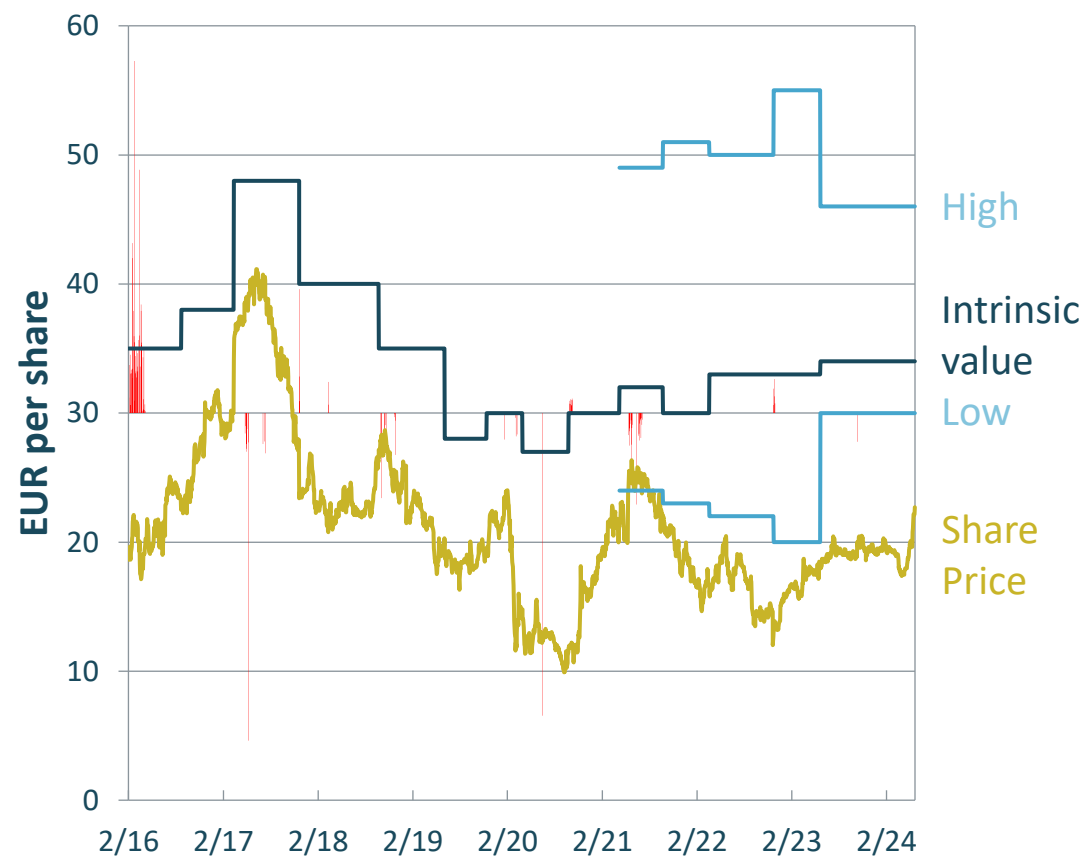
Asset plays are really «hidden» earnings and/or valuation plays

- Asset value = PV of cash (potentially) generated
- Many companies have more than one segment
- These often differ in growth, margins and riskiness
- Thus multiples can differ
- The market often misses that

Valuable software asset is still unrecognized: Quadiant

| Segment | Economics | Multiple | Value per share (EUR) |
|--------------------------------|---|--------------------------|-----------------------|
| Franking machines | Sales -3% p.a. Cash generative | 5x earnings | 18.00 |
| Client communications software | High growth, margins low but increasing | 2x sales (comps at 3-7x) | 15.00 |
| Parcel lockers | High growth, margins low but increasing | 1x sales | 4.00 |
| Net debt + Leasing book | | | -2.00 |
| Total | | | 35.00 |

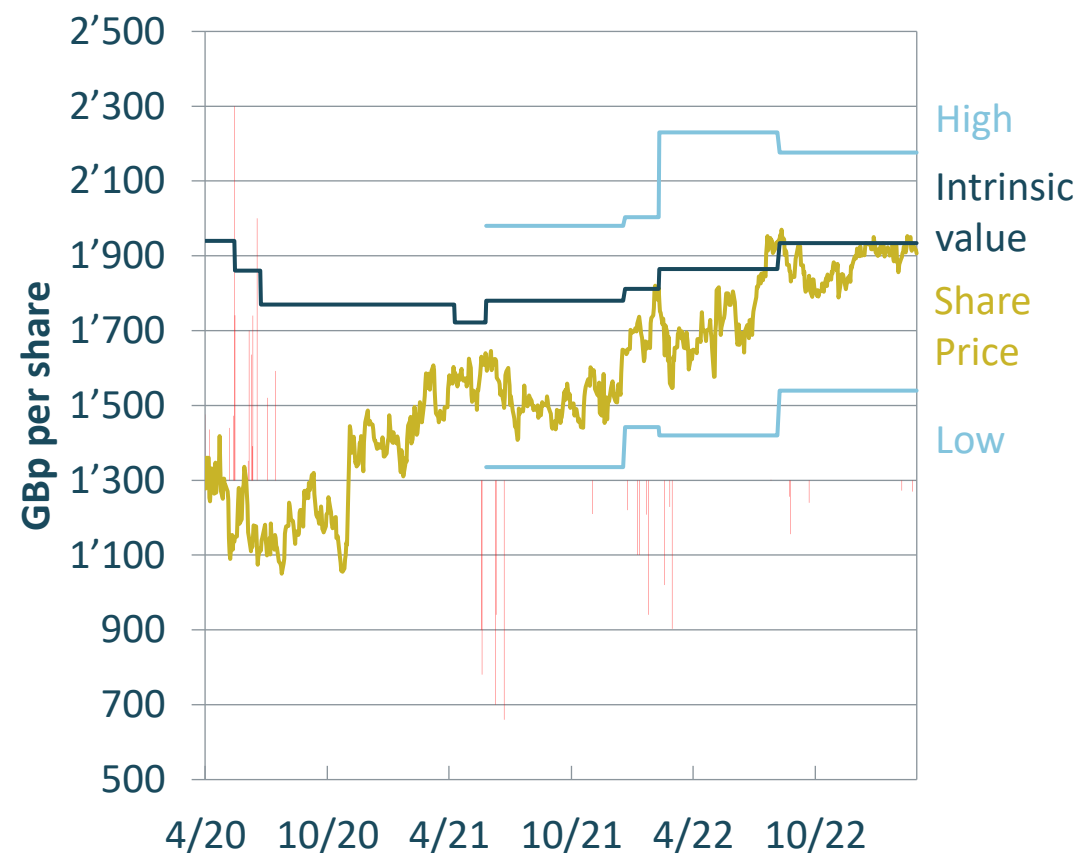
Patience is required: Quadiant



- Key: relative growth rates, margins of segments
 - Risk is misestimating these
 - Market focuses on reported results
 - Value emerges
 - Over time
 - With management actions
- Sum of the parts analysis is key

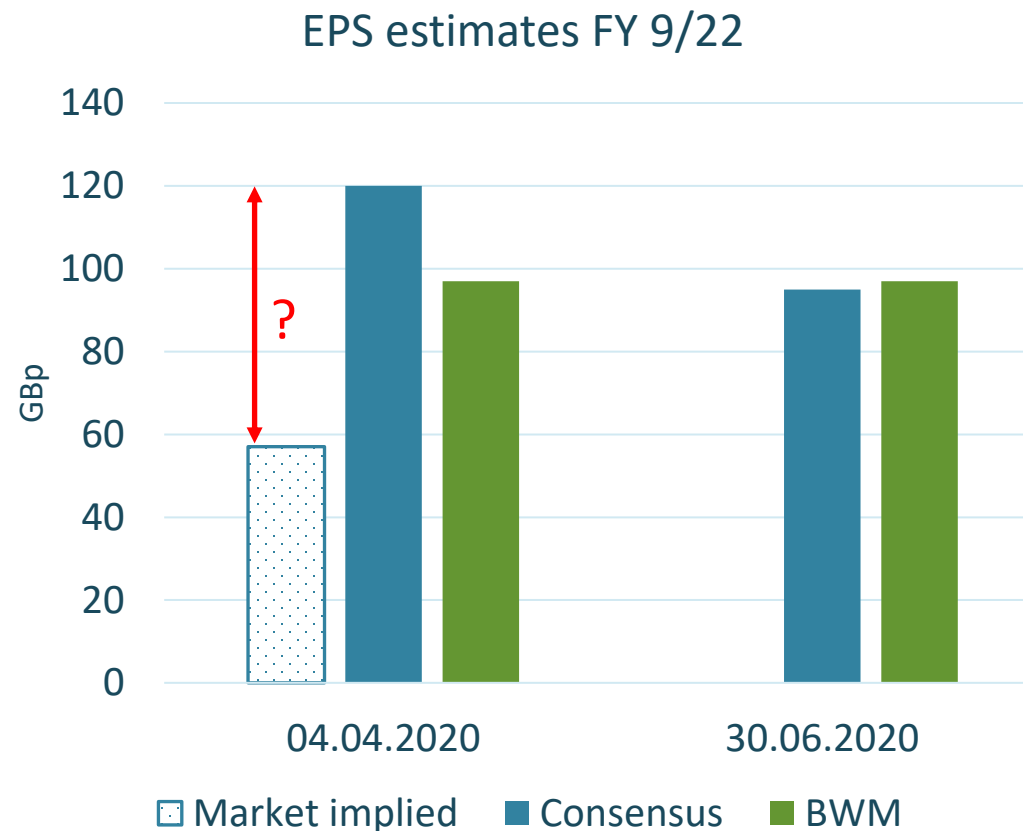
We look through market panic: Compass

- Food service industry leader – better growth and margins
 - Historical PE 22x
 - Covid collapsed earnings
 - We assumed a return to normal within two years
- Medium-term view creates chances



Compass consensus estimates adapted slowly – it pays to do one’s own work

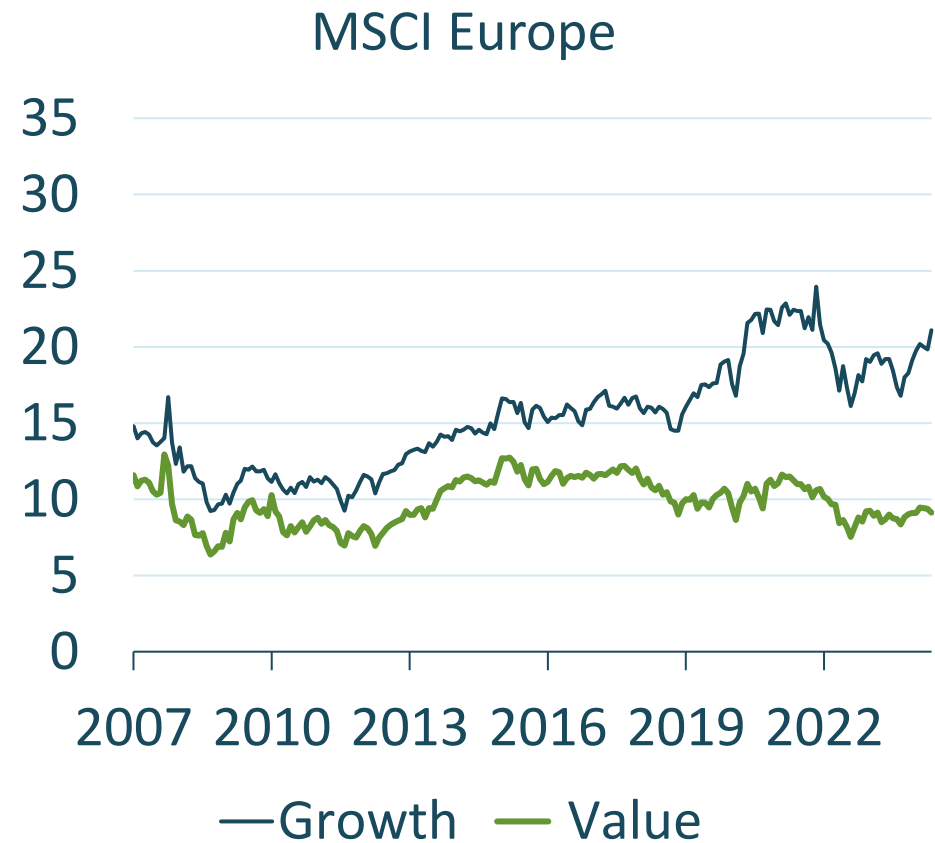
- In April 2020 Covid uncertainty was great. What was «normal»?
 - Stock market implied EPS of 55-60p
 - Consensus was falling fast at 115p
 - BWM estimated EPS at 97p
 - By early summer, consensus agreed
- Own research cuts through confusion



Stars and scars: lessons from Value investing

- Key questions are:
 - What is the business worth?
 - Why?
 - How will the value be realized?
 - When?
- Value investing requires doing your own research
- Mistakes are inevitable – we try to learn from them

Current MSCI Index P/E ratios indicate 1) European value is historically cheap and 2) growth P/Es seem to be reverting to the mean



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The legal basis for the purchase of the mentioned funds is the key information documents, the current fund prospectuses (including Annexes) as well as the most recent audited annual and unaudited semi-annual reports.

The country of origin of the collective investment scheme is the Principality of Liechtenstein. The representative of foreign collective investment schemes in Switzerland is LLB Swiss Investment AG, Claridenstrasse 20, 8002 Zürich. The Swiss Paying Agent in Switzerland is Bank Linth LLB AG, Zürcherstrasse 3, 8730 Uznach. The prospectuses, key information documents, fund contracts as well as the annual and semi-annual reports are obtainable free of charge from the representative in Switzerland.

LTIF Classic

LTIF Natural Resources

LTIF

Long Term Investment Fund

Value: the Charlie Munger way

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In memoriam of Charlie Munger 1924-2023

Presentation Plan

- **Value: the “*Charlie Munger Way*”**. We finally understood it
- Did we learn? “*Strategic Value*” developed
- Growth, Value: what’s next?

Who is more important Buffett or Munger?

- Buffett started very early (1940-50's) to pick “**cigar butts**”. Pure traditional value
- Buffett followed his **professor Ben Graham, possibly the pioneer of value investing** (*Security Analysis, The Intelligent Investor*). Ben Graham got tired of investing (his real passion was art... and women)
- Charlie brought a new path within value: **invest in good businesses**. They met in a dinner end 50's in the Golf Club of Omaha and started talking once a week >2 hours
- Over 75 years these 2 people have led one of the top investment stories ever, combining traditional value and quality. Quality Value?

LTIF Classic Traditional Value path



- LTIF Classic: top performer 2002-08
- c30pp of alpha per year & 2bn assets
- We fell hard in the GFC (65%).
- Did we learn?

Charlie: “People who are learning machines which focus on the long run do rise in life”

Our Learnings

- **Traditional value** (picking cheap stocks) **tends to be biased towards low quality, cyclical and sometimes problematic businesses**, structural or not
- **Traditional value does not compound (most of the time)**. Quality/growth does and less need to trade or to time
- **Traditional value is more volatile**. Value usually underperforms in recessions and outperforms in up-cycles
- **We understood that value could be applied to quality, even growth**. There is an overlap between value and quality and growth
- **We developed what we call Strategic Value (quality value)**, investing in all kind of companies, excluding bad businesses

Conclusion: we felt the need to invest in better businesses

Presentation Plan

- The “*Charlie Munger Way*”. We understood it during the GFC
- **Did we learn? “*Strategic Value*” developed**
- Growth, Value: what’s next?

The Charlie Munger's Way: Strategic Value

- **4G's:** good business, good management, good balance sheet @ good price
- **C&D: Concentration & diversification:** Buffett's 6 eggs theory applied to sectors. Watching currencies exposures and look through risk
- **RAS: Risk Adjusted Strategy with 4 risk categories:** Cat1 to Cat4. IRR from 10% to 20%. Starting point: 50% Cat1-2 50% in Cat3-4. <10% in Cat4
- **ESG categories** from top Cat-A to Cat-C. We are article 6 and will not move until rules are clear. Greenwashing is all over the place
- We developed the **Watch List** to protect our circle of competence

Portfolio Construction: the 4G's + C&D

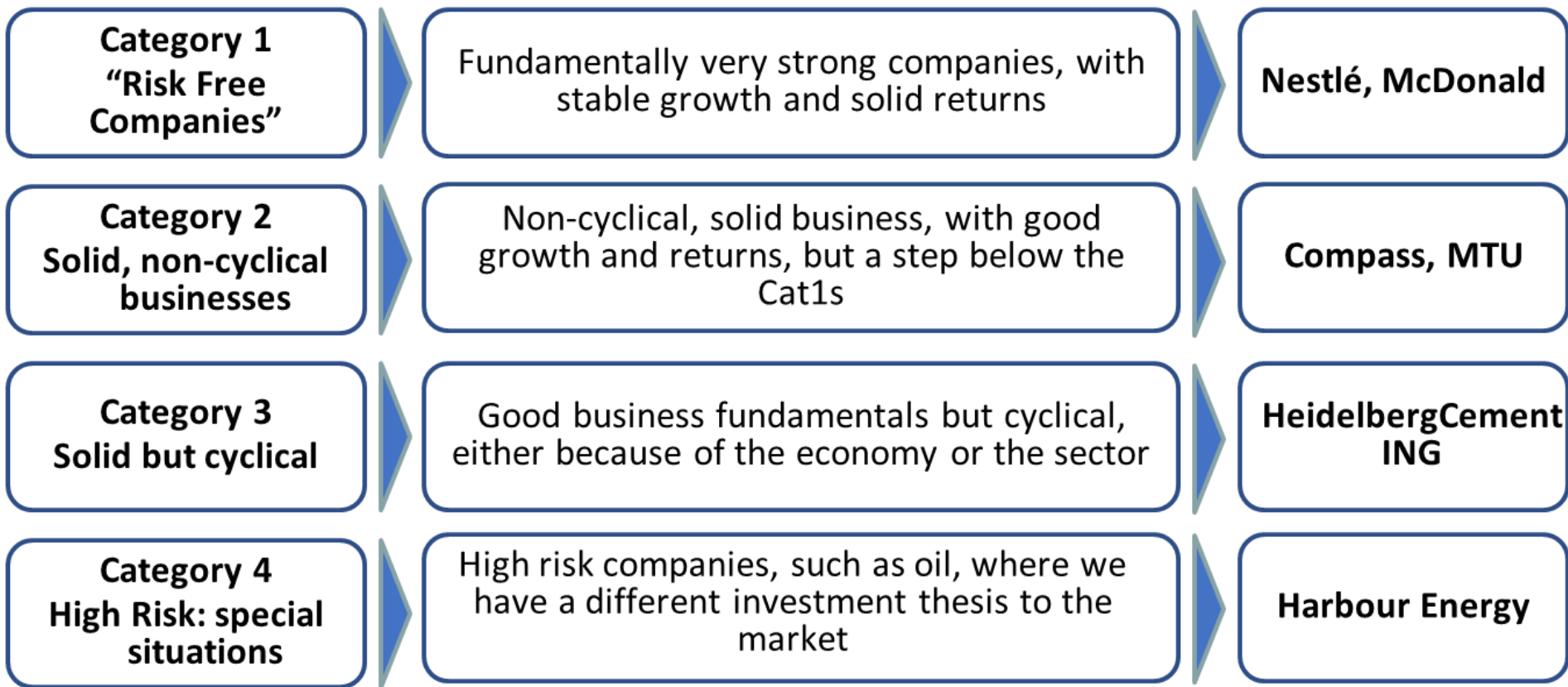
LTIF Classic Top 10 Holdings (March24)

| | |
|------------------------|--------------|
| ISS A/S | 5,6% |
| Grifols SA | 5,1% |
| Pandora A/S | 3,9% |
| Leroy Seafood ASA | 3,8% |
| Salmar ASA | 3,7% |
| Medtronic Plc. | 3,6% |
| Unilever Plc. | 3,5% |
| Reckitt Beckinser Plc. | 3,5% |
| Mowi ASA | 3,5% |
| Raytheon Corp. | 3,1% |
| TOTAL | 39,3% |

- Quality & Value “The Munger Way”
- Concentration: 40-50% of the Classic Fund is in 10 names
- Diversification: business & geographic diversification
- Capital Protection, Keynes

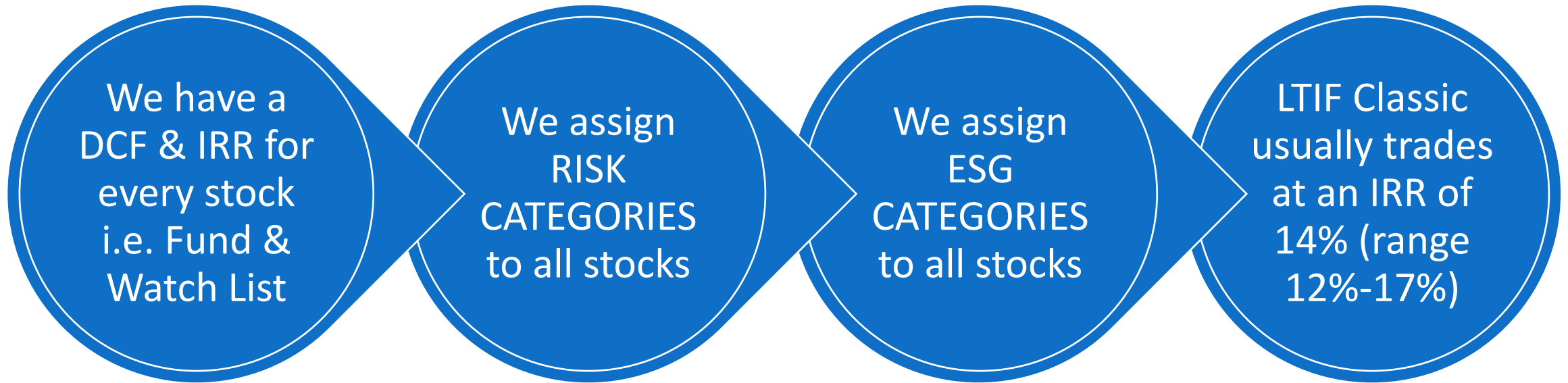
Know your portfolio

Portfolio Construction: RAS



50-60% of the Classic in Cat 1-2 and never more than 10% in Cat4

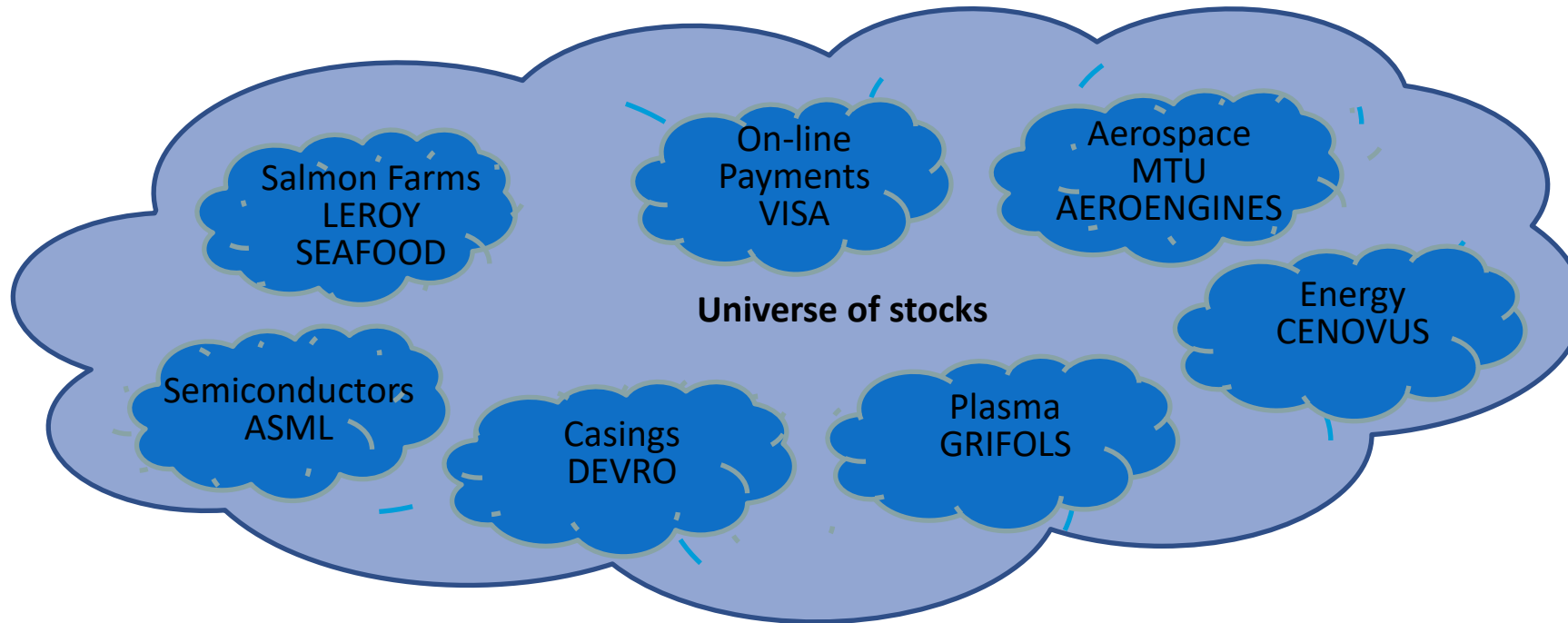
Portfolio Construction: Financial Modelling



- We model all companies. Main assumptions: growth, margins, returns.
- The Fund is thus an average of hundreds of assumptions i.e. consistent
- So, the IRR and IV of the fund are also very consistent. We should get there thanks to our diversified portfolio (our main position almost ever surpasses 6%)

Circle of Competence through a Watch List

- We follow 300 companies, all geographies all sectors



We do not follow momentum. We Invest in what we know

We buy at a discount. Margin of Safety

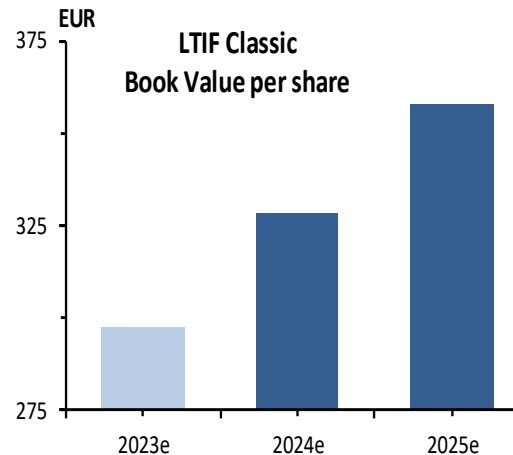
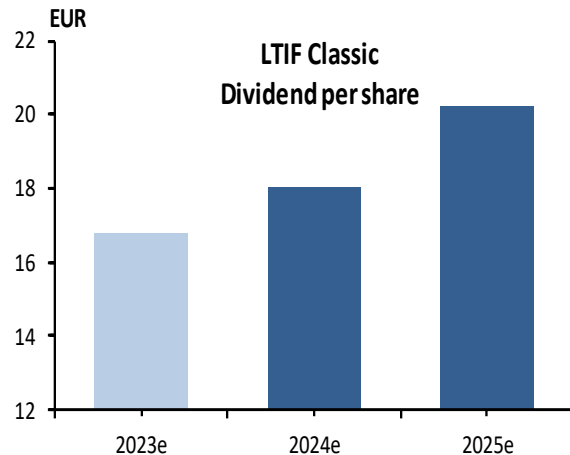
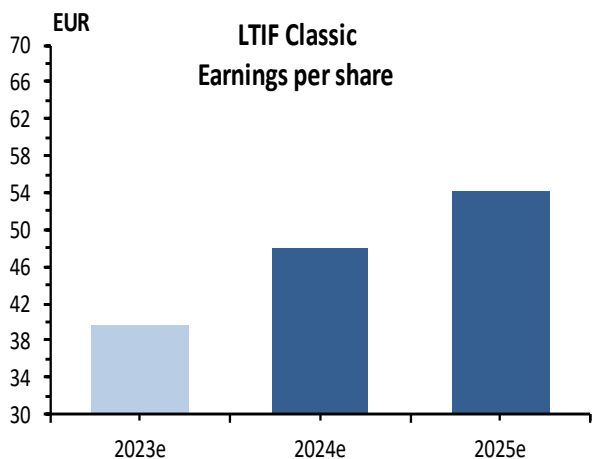
| Date | NAV | % |
|------------|-------|-------|
| 31.12.2020 | 407.9 | |
| 31.12.2021 | 494.3 | 21.2% |
| 31.12.2022 | 565.3 | 14.4% |
| 31.12.2023 | 616.7 | 9.1% |

Reporting LTIF Classic as of 31.12.2023 (aggregated data in EUR)

| Year | EPS | % | P/E | EPS yield | MSCI World P/E | MSCI World EPS yield |
|-------|------|-----|------|-----------|----------------|----------------------|
| 2023e | 39.6 | | 15.6 | 6.4% | 17.9 | 5.6% |
| 2024e | 48.0 | 21% | 12.9 | 7.8% | 16.3 | 6.2% |
| 2025e | 54.2 | 13% | 11.4 | 8.8% | 15.1 | 6.6% |

| Year | DPS | % | Div. Yield | MSCI World Div. Yield |
|-------|------|-----|------------|-----------------------|
| 2023e | 16.8 | | 2.7% | 2.1% |
| 2024e | 18.1 | 8% | 2.9% | 2.2% |
| 2025e | 20.2 | 12% | 3.3% | 2.7% |

| Year | BPS | % | P/B | MSCI World P/B |
|-------|-------|-----|-----|----------------|
| 2023e | 297.3 | | 2.1 | 2.9 |
| 2024e | 328.4 | 10% | 1.9 | 2.7 |
| 2025e | 358.0 | 9% | 1.7 | 2.5 |



- Value means buying at a discount
- We usually look for 30% discount to IV
- Discount = risk management

SIA Funds Investment Principles (**Buffett Vs. Charlie**)

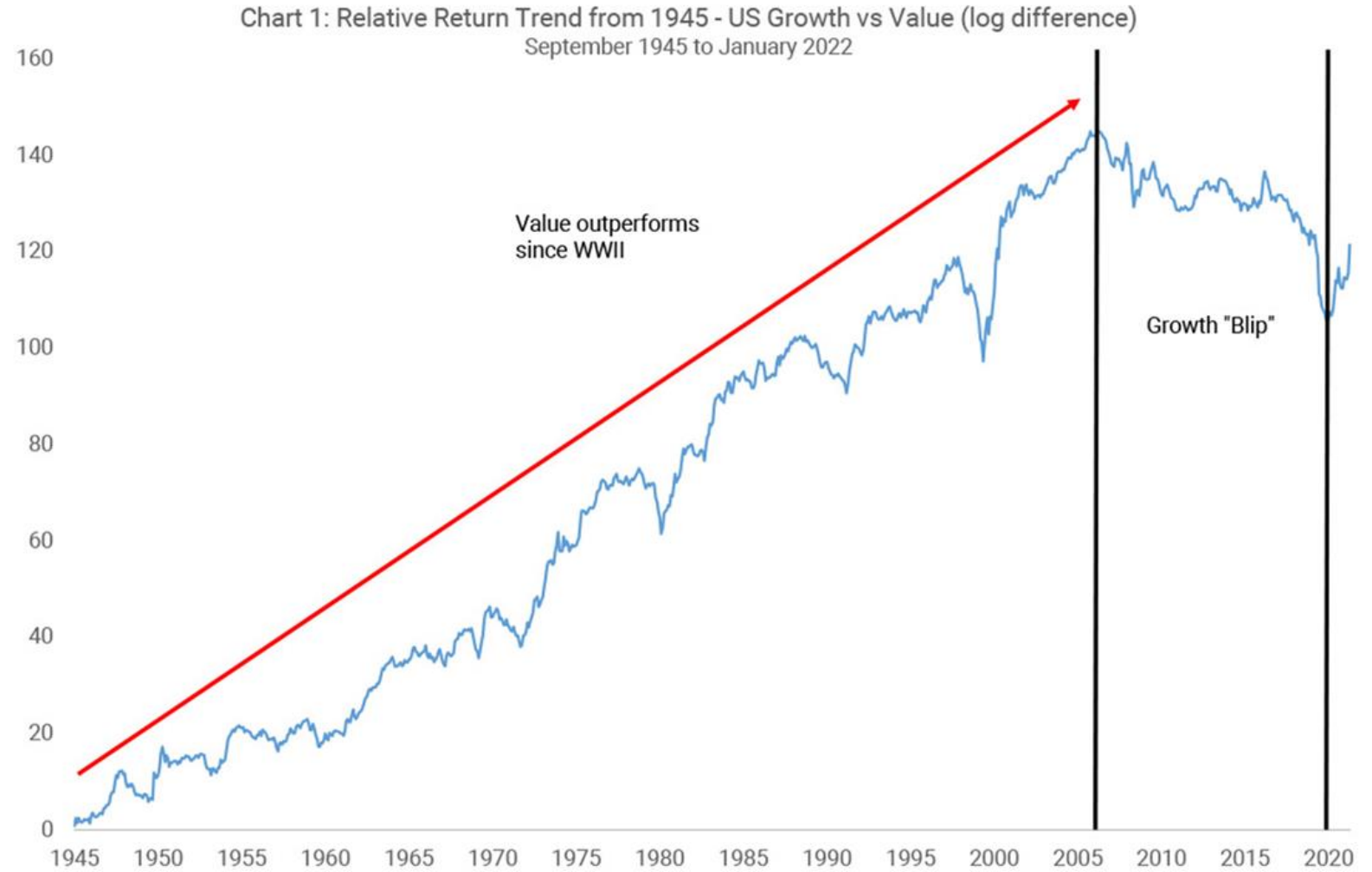
- **Strategic Value.** 3 out of the 4G's: Good Business (moat), Good managements (returns/minorities), Balance sheet (crisis proof) *"Investing is where you find a few great companies and then sit on your ass"*
- **Fundamental Analysis.** Financial analysis with IV/IRRs on a company level and in total for our funds. *"The three most important words in investing are margin of safety."*
- **Responsible Investing.** Transparent. No speculation. Big upside= big risk. No additives. No derivatives, no hedges, no funnies. *"It takes 20 years to build a reputation and one minute to ruin it"*
- **Long Term View.** *"The big money is not in the buying and selling... but in the waiting"*
- **Circle of Competence. Watch List.** *"Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick "no."*

Presentation Plan

- The “*Charlie Munger Way*”. We finally understood it
- Did we learn? “*Strategic Value*” developed
- **Growth, Value: what’s next?**

Value Works

- Value beats growth in the long term
- But since 2001, growth beats value: 23 years!
- Trend accelerated since 2018
- Will this continue?



Source: Fama & French

MSCI Indices: Value underperformed Growth since 2001

- **Global equities long term: 6-7% per annum.** MSCI World since 1969: 8%
- 1974-2000: 25 years of value cycle. 2pp p.a. outperformance vs. growth
- 2001-2024: 23 years of growth cycle. 2pp p.a. of outperformance vs. value (mainly from 2018)
- **2024-2050: new value cycle? 25 years?**

Time for new Value cycle?

- **We think yes.** Correlates with an economic upturn, higher inflation and rates, commodity up-cycle, capex cycle and generally follows a growth cycle (mean reversion)
- **The Mag7 (25%+ of the SPX, US 70% of DM) cannot grow at double digit rates for ever** so options are moving into negative territory
- But Value, Growth, Momentum and all other factors are a simplification... only a label. There are clear overlaps
- Using Munger & Buffett as inspiration: **SIA Funds will keep investing in good businesses at the right price, in a value or a growth cycle**

Classic since the MBO (2019)



- LTIF Classic: 12% p.a. for 5Y
- **Improve?** the Classic trades at 12.5-13% IRR after fees.
- **+1pp from rebalancing: maximum of 13.5-14%.**
- **We stick to our goal of 10% p.a. (x2 in 7Y x4 in 14Y)**
- But (1) value cycle and (2) commodities cycle

Charlie: "People who are learning machines which focus on the long run do rise in life"

“Our preferred attitude is partnership”



Investment philosophy.
Strategic Value



Size. Boutique. Not constrained by institutional



Experience.
Decades. Team working together



Risk management.
Quality biased.
Risk Averse



Track record:
10% p.a.



Long term view:
investing vs. speculation



**Transparent,
Responsible, Honest.**

SIA Funds is looking for long term partners



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GRIFOLS

Realizing Full Grifols' Value

SWISS VALUE DAY

June 7, 2024



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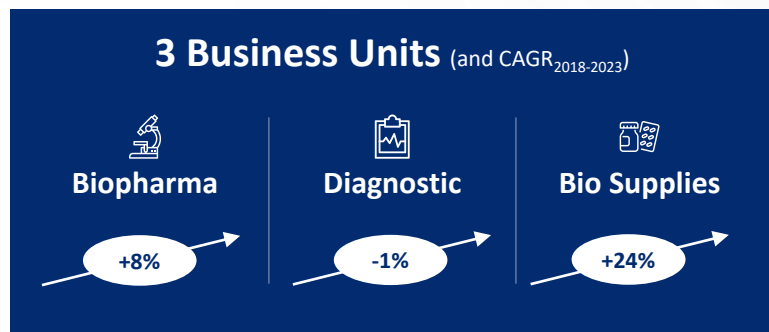
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Alternative Performance Measures (APMs)

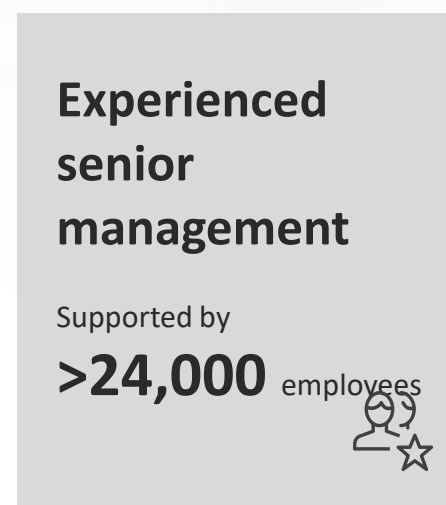
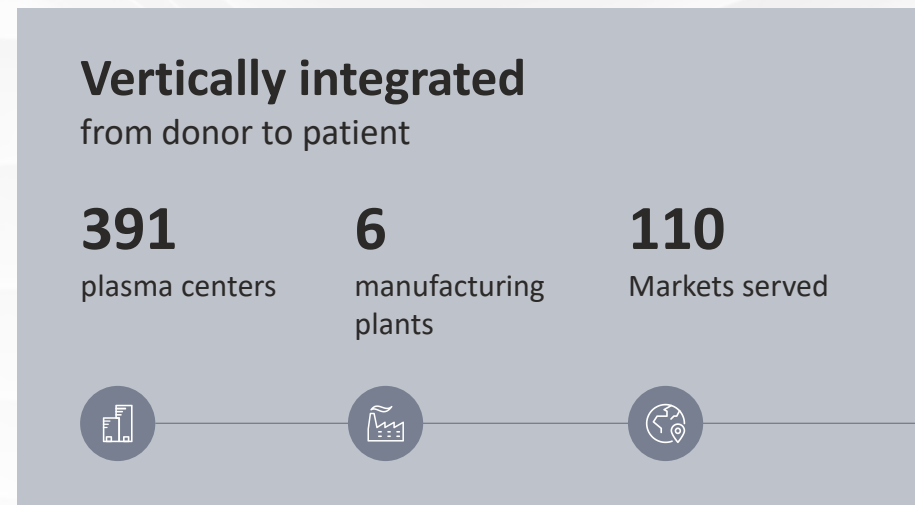
This document and any related conference call or webcast (including a Q&A session) contain, in addition to the financial information prepared in accordance with IFRS, alternative performance measures (‘APMs’) as defined in the guidelines issued by the European Securities and Markets Authority (‘ESMA’) on October 5, 2015. APMs are used by Grifols’ management to evaluate the group’s financial performance, cash flows or financial position in making operational and strategic decisions for the group and therefore are useful information for investors and other stakeholders. Certain key APMs form part of executive directors, management and employees’ remuneration targets.

APMs are prepared on a consistent basis for the periods presented in this document. They should be considered in addition to IFRS measurements, may differ to definitions given by regulatory bodies relevant to the group and to similarly titled measures presented by other companies. They have not been audited, reviewed or verified by the external auditor of Grifols. For further details on the definition, explanation on the use, and reconciliation of APMs, please see the appendix as well as the “Alternative performance measures” document from our website www.grifols.com/en/investors.

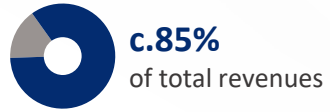
Grifols: Dedicated to Improving People's Lives Globally



Robust pipeline



Biopharma Leading Growth Backed by a Best-in-Class Portfolio



2023 Total market
(Size in EUR;
Growth in % vs. PY)

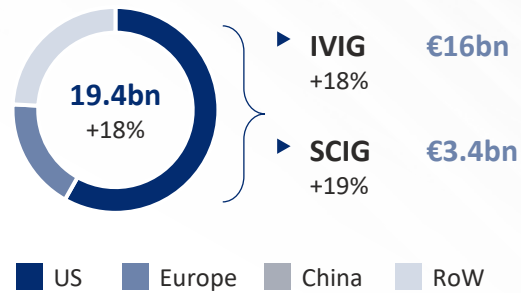
Grifols global market share

Our key products

Key competitors

Key drivers

Immunoglobulins



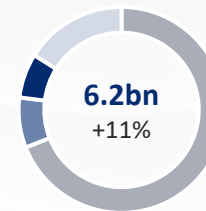
c.20%

gamunex-c Xembify YIMMUGO

CSL Takeda octapharma

- Strong underlying demand and continued growth in key indications (e.g. PID, SID)
- New indications
- Accelerate SCIG adoption

Albumin



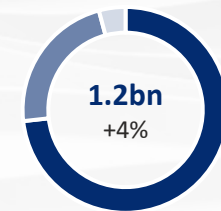
c.20%

Albutein Human Albumin Grifols Albutein Human Albumin FlexBag Plasbumin Albumin (Human), USP

CSL Takeda octapharma

- Continued demand growth in China
- New indication in the US

Alpha-1



c.70%

PROLASTIN C LIQUID AlphaID PROLASTIN

CSL Takeda KAMADA

- Accelerate AATD patient diagnosis to continue leading market growth

Global Footprint Serving 100+ Markets



6 Manufacturing plants



391 Donor centers



13 R&D centers in **4** hubs



+110 markets served



Strategic partnerships

China | Canada | Egypt

Faced Challenges Triggered by COVID-19 in 2020

Challenges



Reduction in plasma volumes

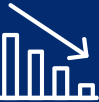


Increase in Cost Per Liter (CPL)



And Started to Overcome the Impact in 2022...

Challenges



Reduction in plasma volumes



Drivers

- Solid plasma center network with a focus on improving volumes per center and efficiencies
- Well-invested in terms of manufacturing capacity
- Digital evolution and marketing



Increase in Cost Per Liter (CPL)



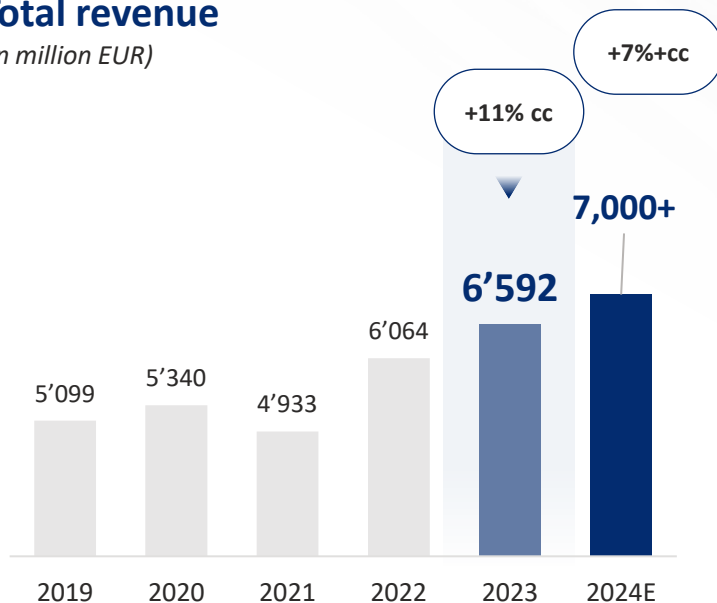
Operational Improvement Plan of €450m cash cost savings

- Donor center rationalization
- Process efficiencies
- Structure cost optimization
- Donor experience improvement

... Reflected in Financial Turnaround in 2023 and Beyond

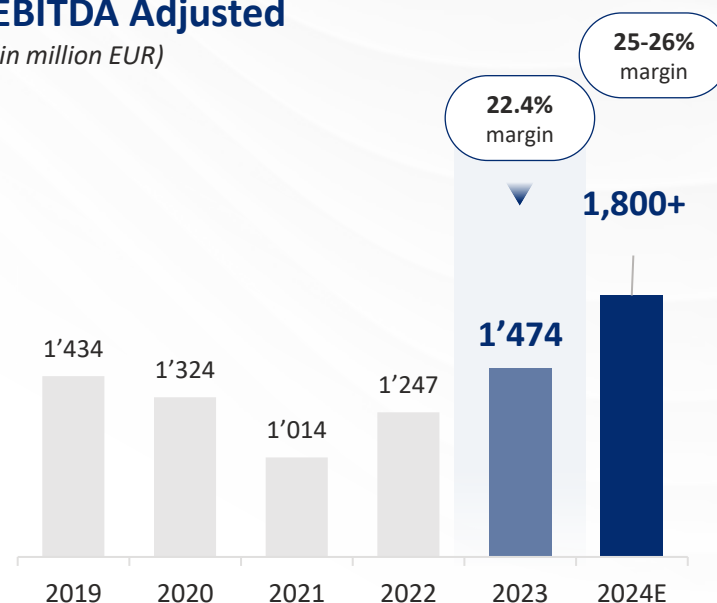
Total revenue

(in million EUR)



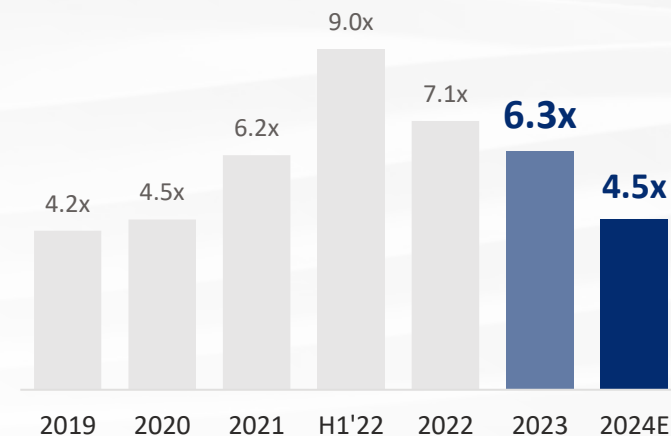
EBITDA Adjusted

(in million EUR)



Leverage Ratio

(as per the Credit Facility)



- Biopharma as the main lever
- Solid underlying demand and plasma supply
- Product mix contribution driven by SCIG

- Revenue growth including product mix
- CPL reduction and increasing efficiencies
- Operational leverage

- EBITDA organic improvement
- FY23 pro-forma ratio standing at 5.4x considering €1.6bn SRAAS proceeds

Note: All figures are presented on a consolidated basis (including Biotest)

(*) EBITDAs for 2019 and 2020 on a reported basis, not adjusted, as one-offs were not deemed significant at that time aside from the COVID impact

Path to the Next Chapter of Growth



Plasma momentum remains

Plasma volumes to grow sustainably

CPL to stabilize

Focus on **efficiencies** and increase yields



Commitment to reach FY24 Guidance

Total **revenues**: 7%+ cc growth

Biopharma: 8-10% cc growth

€1,800m+ **EBITDA Adj** at a 25-26% margin



Focus on debt reduction and cash flow

SRAAS divestment proceeds of **€1.6bn**

Cash Flow Improvement Plan in place

Cleared 2025 maturities

Path to the Next Chapter of Growth



Governance and Leadership

Separation of **ownership** and **management**

Thomas Glanzmann as Executive Chairman and **Nacho Abia** as new CEO

Complete C-suite re-shuffle: reinforced global and multicultural leadership team

Enhanced **accountability** and **performance culture**



Commercial expansion and Innovation

Untap further value from **product portfolio**

Major **opportunities** to expand **key existing** products (SCIG, Alpha-1)

Robust **innovation pipeline** to widen the commercial portfolio

Upcoming **launches** of **novel proteins**



Simplification

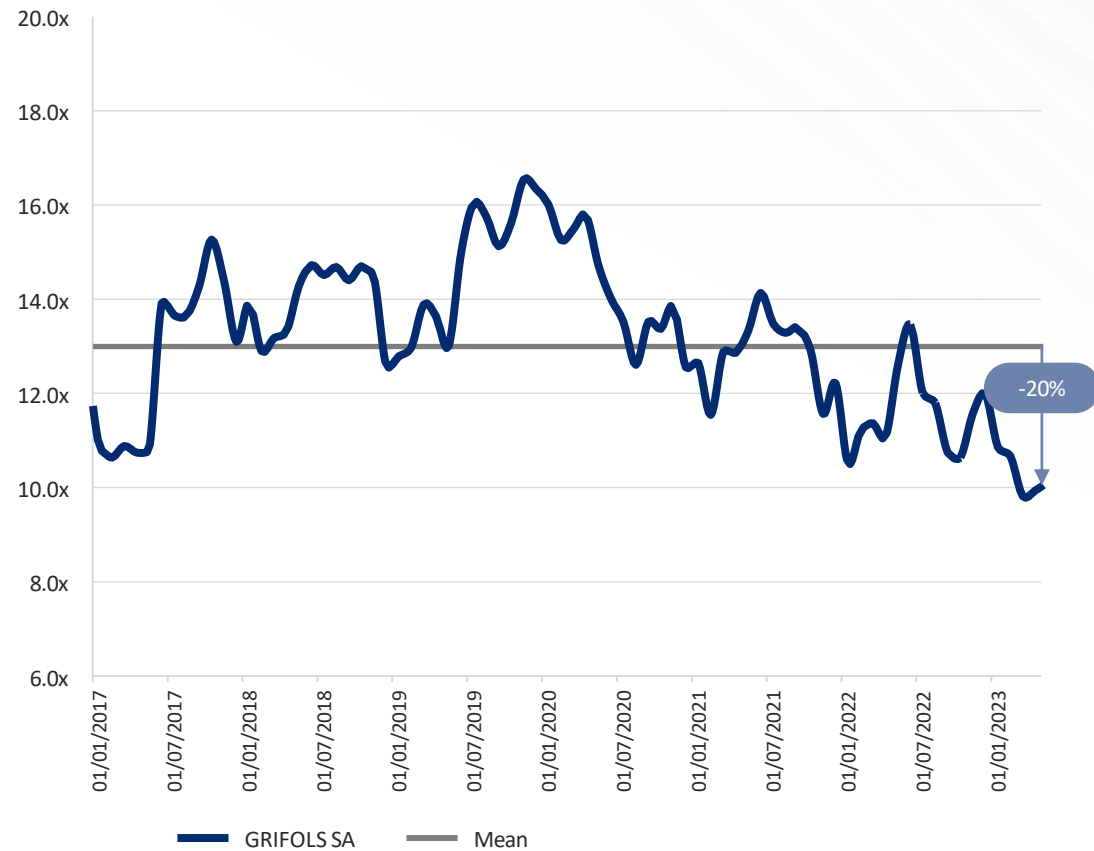
Streamlined and **leaner** structures and processes

More **cost-effective** organization

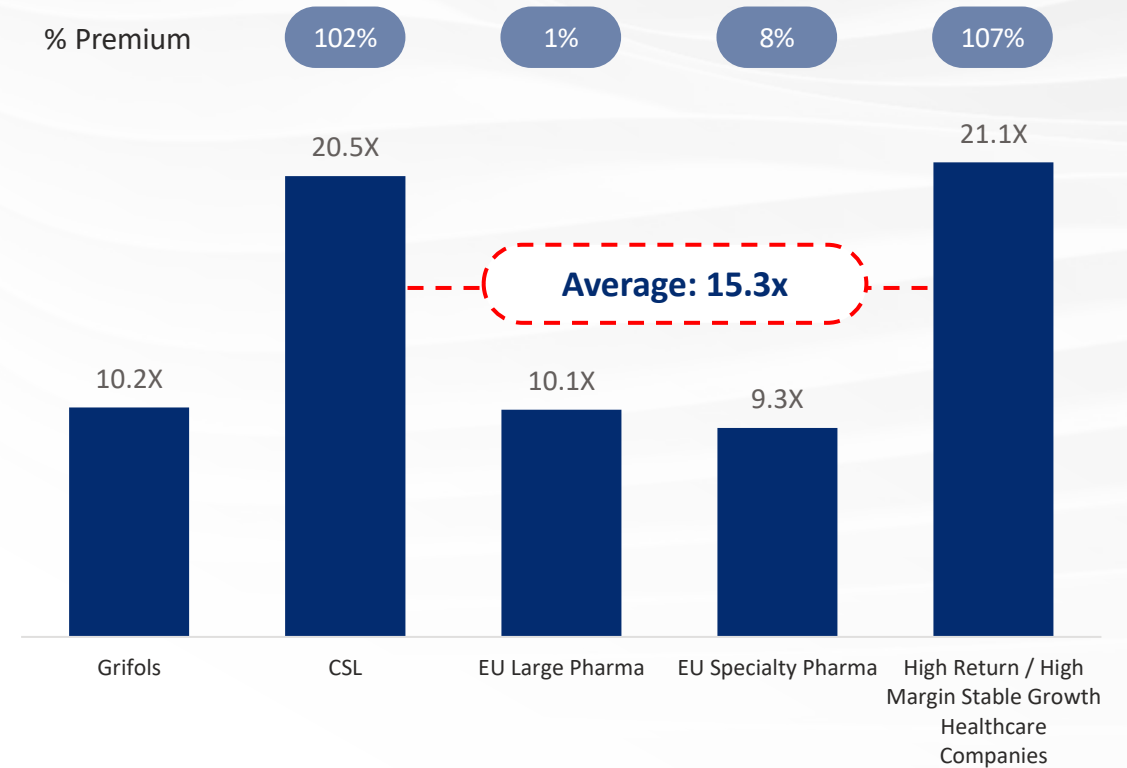
Continuous improvement

Grifols Continues to Trade at a Discount

Multiples Over Time (EBITDA FY+1 Consensus)



Discount vs. Peers – EBITDA FY24



(*) Source: Bloomberg, as of Q4'23. EU Large Pharma includes AstraZeneca, Bayer, GSK, Merck, Novartis and Roche; Roche; EU Specialty Pharma includes Almirall, Ipsen, Indivior, Lundbeck, Orion, Recordati, SOBI and UCB; High Return / High Margin HC Companies include Qiagen, bioMerieux, Coloplast, Convatec and Novo Nordisk

GRIFOLS

Investor Relations & Sustainability

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✉ investors@grifols.com

✉ sustainability@grifols.com

✉ inversores@grifols.com

✉ sostenibilidad@grifols.com

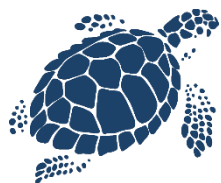


Company Analysis

LG Household & Health

A Korean success story that should be nowhere near the end – Quality at low prices

Stefan Rehder, VIA Research
Zürich, June 2024



Value Intelligence Advisors

Slow & Steady wins the race!

VIA

Founded in 2009, located in Munich, AUM €420
Independent Asset Manager, §15 WpIG
3 UCITS IV Fonds, Art. 8; 8+; 6
14 Years Track Record
Global Value Investing plus Sustainability
Focus on Flexible Equities Fund Strategies
Fiduciary Thinking

Track Record



72
von
773

Value Intelligence Fonds
AMI I (a)
(ISIN: DE000A0YAX80)
Nur für professionelle Anleger

79
von
773

Value Intelligence ESG
Fonds AMI I (a)
(ISIN: DE000A2DJT31)
Nur für professionelle Anleger

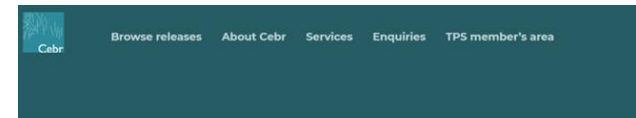


Why invest in South Korea?

High quality companies at low prices & Value-Up-Program!

| Country | Index | P/B | P/E |
|-------------|---------------|-----|------|
| Korea | KOSPI | 0,9 | 10,7 |
| China | SSE Composite | 1,1 | 10,4 |
| Brazil | Bovespa | 1,2 | 8,0 |
| France | CAC 40 | 1,9 | 14,1 |
| Australia | AS30 | 2,0 | 17,0 |
| Japan | NIKKEI 225 | 2,1 | 22,8 |
| Taiwan | TWSE | 2,4 | 17,7 |
| India | Sensex | 3,2 | 20,5 |
| Switzerland | SMI | 3,4 | 18,1 |
| USA | S&P 500 | 4,2 | 21,2 |

Stand: 31. März 2024, Quelle: Petra Capital



April 10, 2023

Sustaining the economic miracle: South Korea to break global top ten by 2026

[Korea's growth miracle: 1953 – present](#)

#Finance #South Korea

South Korea's 'Corporate Value-Up Program': Tackling the 'Korea Discount' and Boosting Shareholder Returns

In a bid to address undervalued stocks, South Korea launches the 'Corporate Value-Up Program'. Major domestic companies like Samsung Electronics, Hyundai Motor, and POSCO raise dividends, while foreign investors fuel a surge in low P/B stocks.

Quadril Adejumo
13 Feb 2024 02:34 EST



South Korea's 'Corporate Value-Up Program': Tackling the 'Korea Discount' and Boosting Shareholder Returns

"Koreans came up from nothing in the auto business. They worked 84 hours a week with no overtime for more than a decade.

At the same time every little Korean came home from grade school, and worked with a tutor for four full hours in the afternoon and the evening, driven by these Tiger Moms. **Are you surprised when you lose to people like that? Only if you're a total idiot"**

Charlie Munger

LG Household & Health

Investment Summary (051900 KS Equity; EUR 4,8 bn MC)

- **LG H&H has a dominant Korean market position in all of its three divisions:** cosmetics, household & personal care and beverages.
- **A quality business with an outstanding track record.** Over the past 20 years, the company grew revenues by 11,8% p.a. and FCF by 15,7% p.a.
- **Operating development has been hit hard in 2022:** Various problems led to a collapse of sales (-25%) & profits (-65%) in 2022. Lock-downs in China, travel restriction that hit duty free sales, political tensions etc.
- **LG H&H trades at historically low valuations** after the stock price of the unlevered company has declined by 68% since mid 2021, : P/B is at 1,3 vs. 5,5 over 10y



LG Household & Health

Product Differentiation – THE WHOO & the story behind

Skincare Step For Whoo

40's and 50's Anti Aging

Jinyulhyang

A skincare line that cares for aging skin with Red Ginseng that acts as a female hormone

Customers 40 years and over that have extremely dry skin

JINYULHYANG

If the dead skin is not removed within 72 hours, wrinkles may be formed.

STEP 1> Essential Cleansing Oil
Deep Cleansing
Maintains the moisture

STEP 2> Essential Cleansing Foam
Natural cleansing foam that doesn't stimulate the skin.

STEP 3> Seol Peeling Gel
Remove dead skin cell (1 to 2 times per week)

STEP 4> Contouring Massage Mask
With the help with the included massager and its high-concentrated nutrients for skin firming.

STEP 5> Essential Revitalizing Balancer
Essence type balancer that replenishes moisture at the first step of skincare

STEP 6> Intensive Revitalizing Essence
A high concentration of Jinyul resin essence to target loose skin and wrinkles.

STEP 7> Essential Revitalizing Emulsion
This highly enriched, anti-aging lotion combats visible aging, deeply moisturizes, and promotes elastic skin.

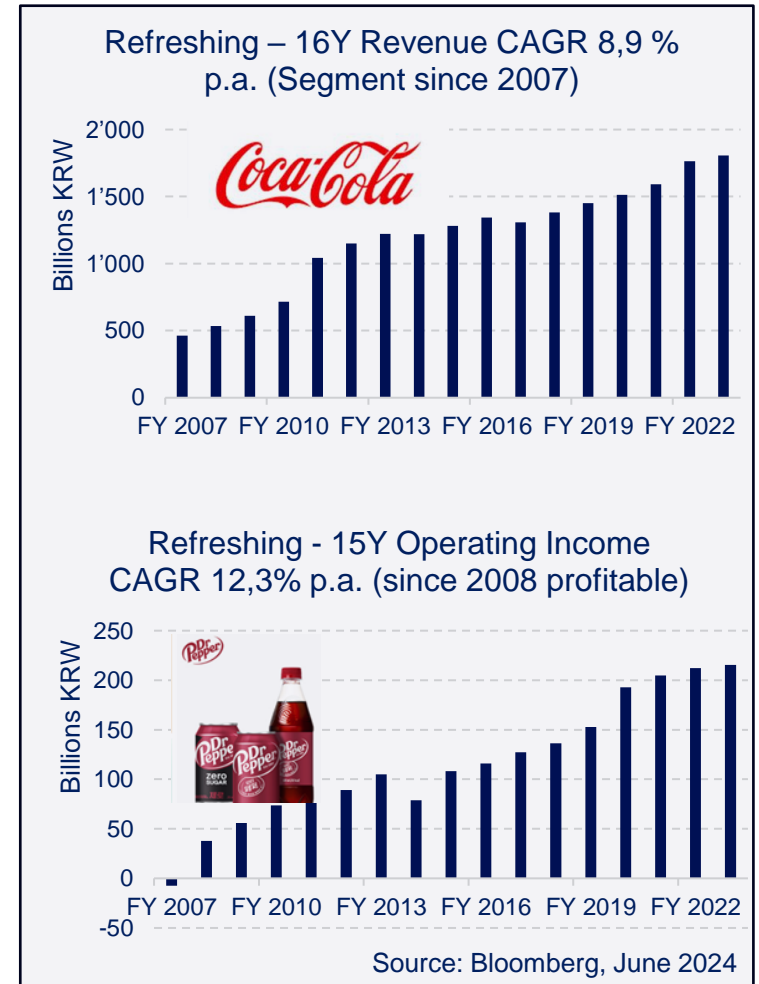
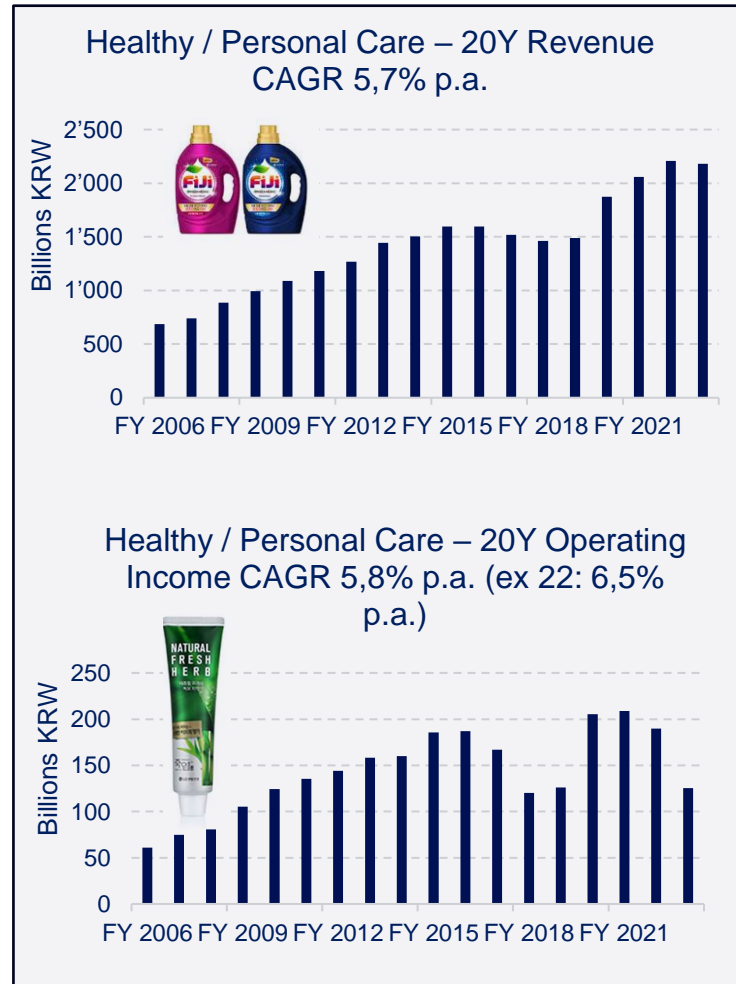
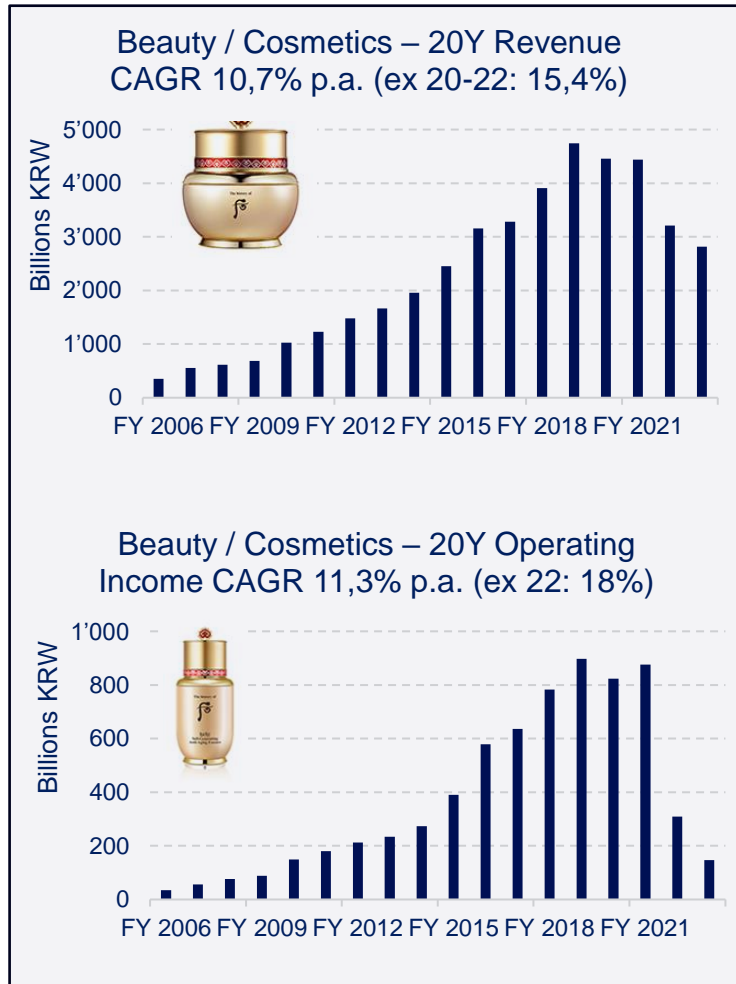
STEP 8> Essential Revitalizing Eye Cream (Set)
Creating renewed eye area by protect against puffiness, wrinkles, dark circles and loose skin around the eyes.

STEP 9> Intensive Revitalizing Cream
Creating bright and healthy skin by deeply nourishing skin with Jinyul resin.

- **ROYAL SECRETS:** The brand differentiates itself by using precious ingredients derived from the Korean royal court's beauty secrets like an ancient whitening ingredient that gives clear, radiant, healthy skin.
- **NATURAL INGREDIENTS** Their signature ingredients include using herbs, mushrooms and other natural ingredients
 - Gongjibi - A complex herbal formula sourced from the royal court gardens
 - Ginseng - An invigorating herbal supplement that helps retain skin elasticity
 - Cordyceps - A medicinal mushroom that boosts vitality
- **MODERN SCIENCE** It is combining them with modern cosmetic science and technology to create ultra-premium, high-performance skincare products.
- **UNIQUE INGREDIENTS** Specific products like the Jinyulhyang Intensive Revitalizing Essence contain unique ingredients like Lauryl and Algae Extract.
- **ANTI-AGING** The formulas blend these traditional Korean ingredients with modern scientific innovations to create luxurious, transformative skincare products.

Business Model

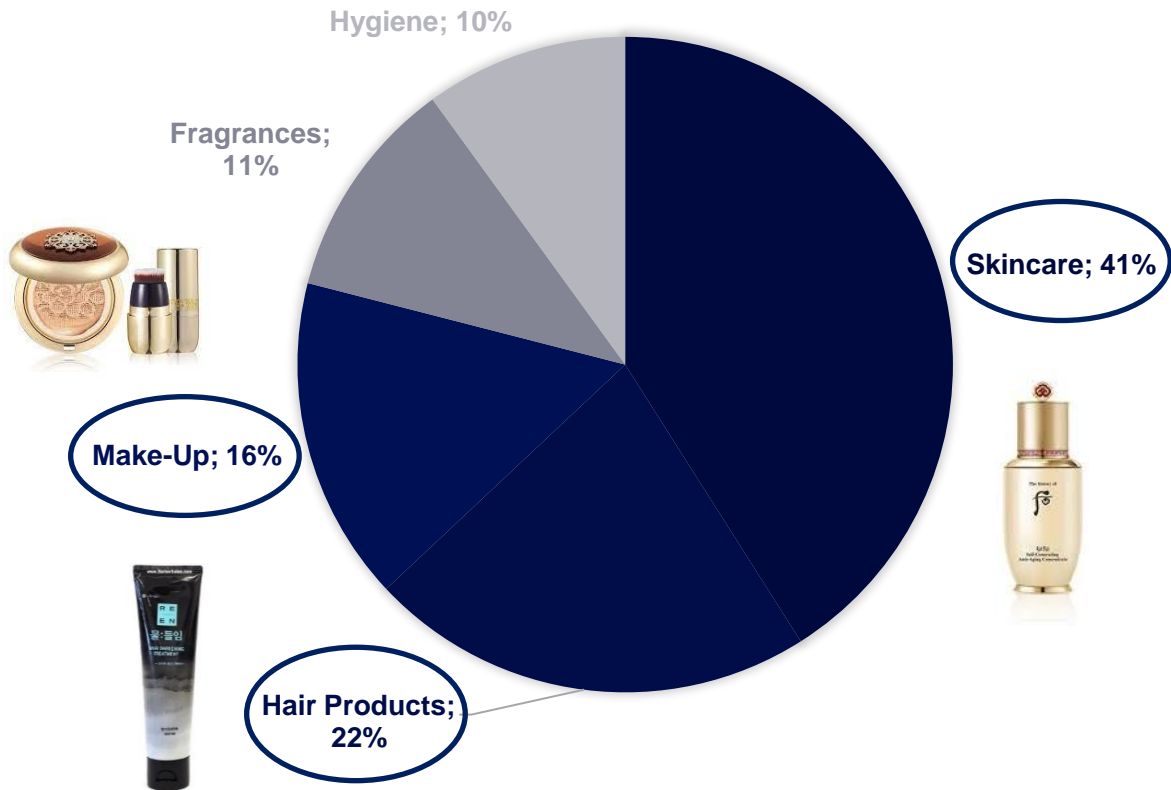
Great Track Record... until 2021...



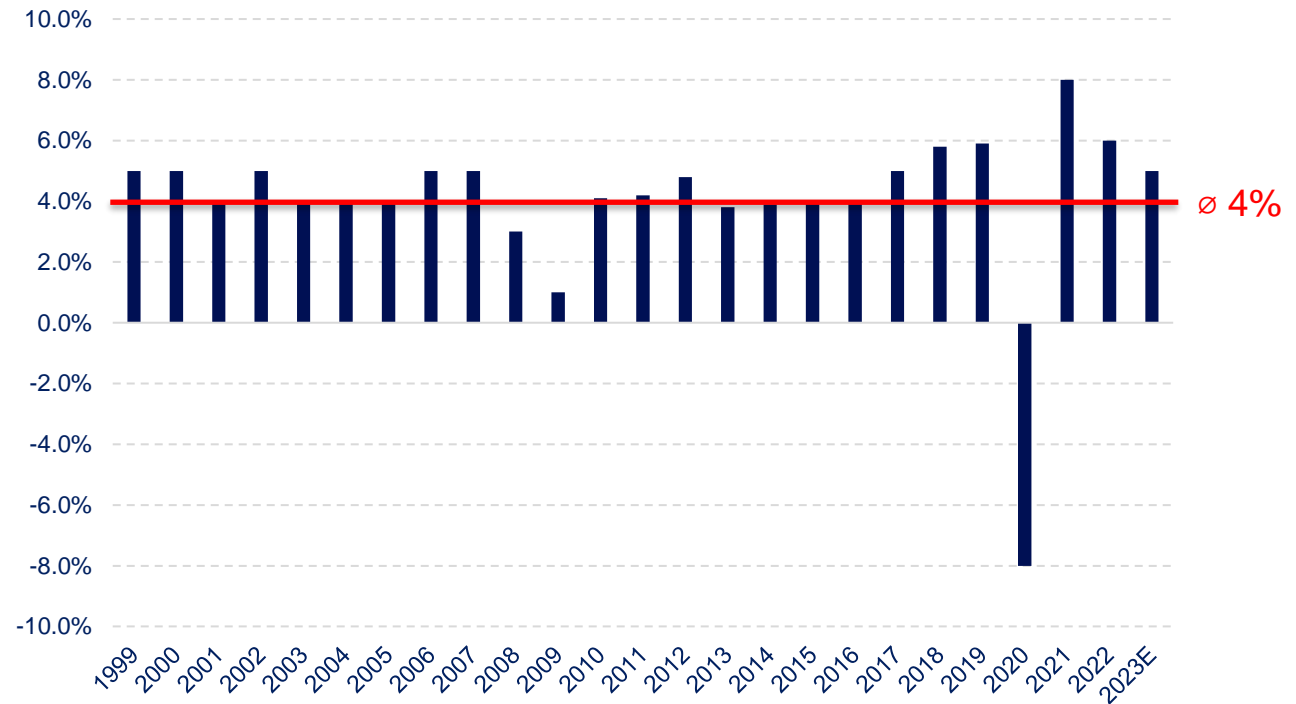
Runway for Growth (I)

The global beauty market is attractive

Global beauty market breakdown by category 2022



Global Beauty Market Like-For-Like Growth (1999-2022)

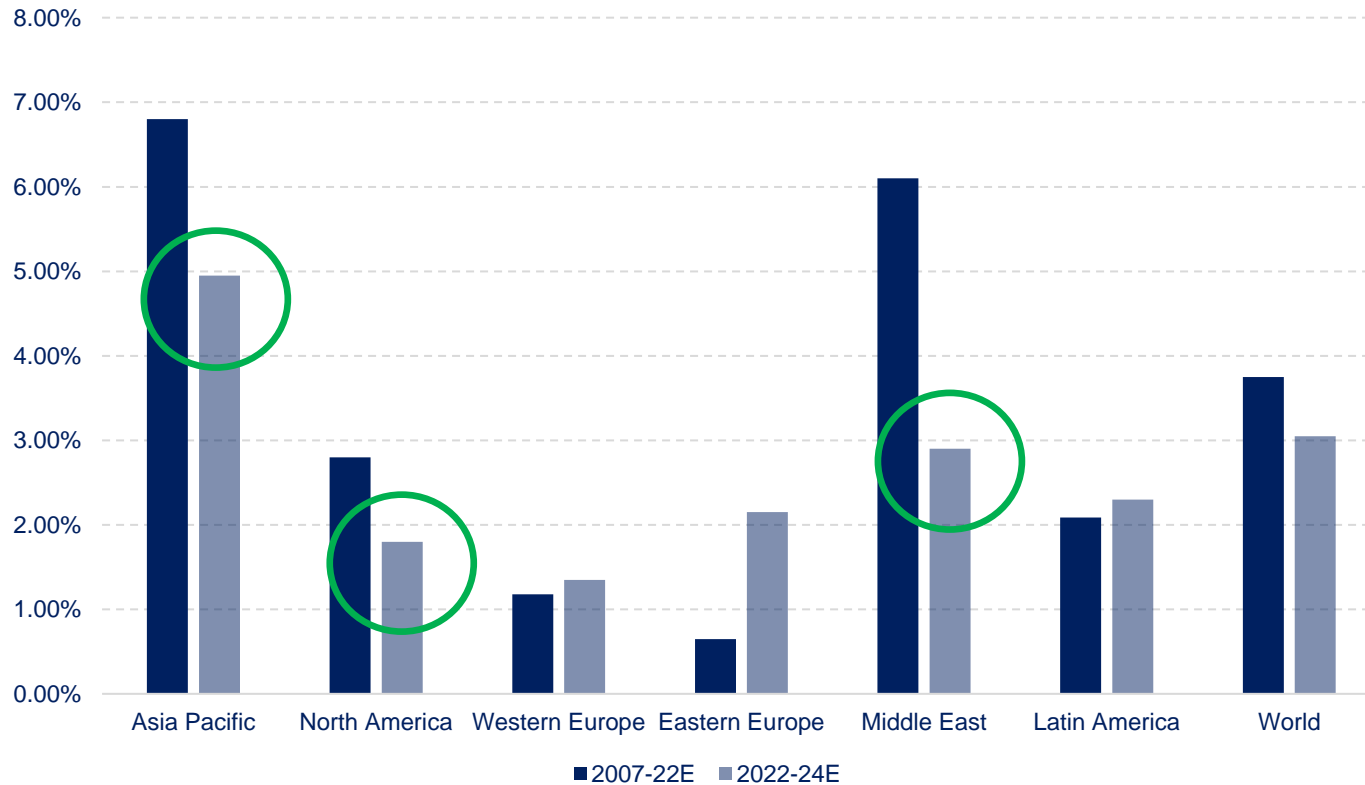


Source: Stifel, March 2023

Runway for Growth (II)

Asia –Pacific remains a sweet spot for luxury cosmetics

Beauty & Personal Care Market Growth by Region 2007-22E vs. 2022-24E



AUGUST 31, 2023; FINANCIAL TIMES
Fortunes Rising Fast in Asia-Pacific

The Financial Times spotlights BCG's 2023 Global Wealth Report which reveals that personal financial assets in **Asia-Pacific are predicted to rise by an average of 7.8% annually over the next five years, well above the 5.3% global average.** As a result, multinational wealth management hubs in Asia will grow faster than their North American or European counterparts. The report's authors encourage leading wealth managers around the world to continue investing in the emerging booking centers in Asia.

Source: Stifel, March 2023

Numerous Challenges (I)

The perfect storm



Numerous Challenges (II)

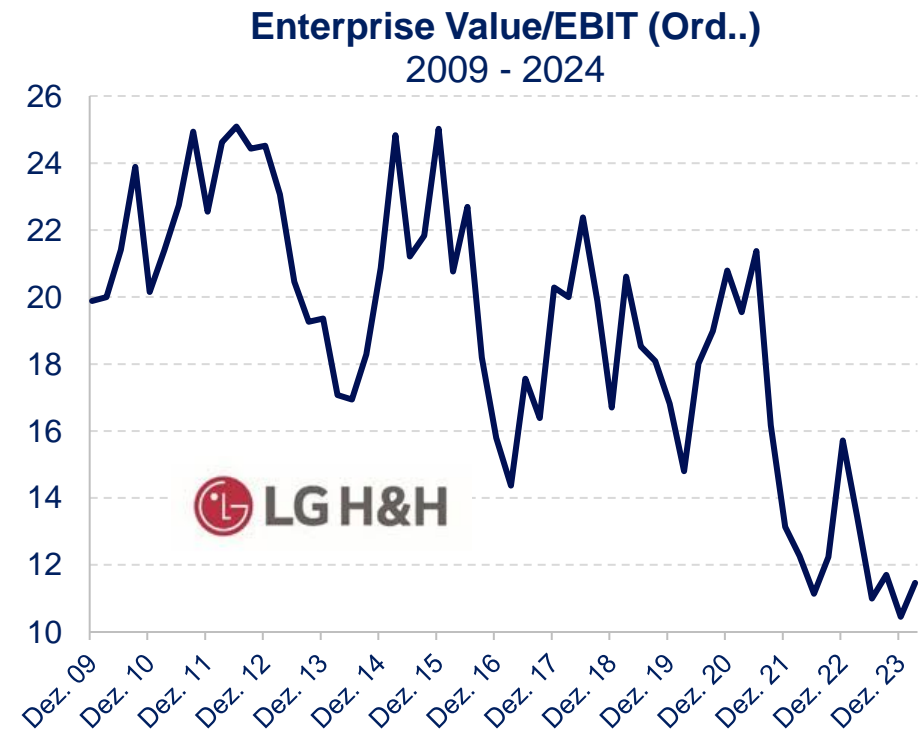
Challenges create opportunities

Stock-Price Decline



„Barbaric
Double
Counting“
Jeremy
Grantham

Multiple-Compression



Variant Perception (I)

Competitive advantages are currently under-appreciated

Korean cosmetics competitive advantages

- They are highly innovative
- Extremely efficient product development cycles,
- Industry supported by government
- Fierce domestic competition drives innovation & quality
- Brand recognition benefits from popular K-Culture
- Benefits from mutual dependence of Korea & China

LG H&H key competitive advantages

- Backed by one of the largest Korean chaebols
- Focus on natural ingredients
- Innovation and R&D Capabilities
- Premium Brand Portfolio: Whoo, Bamboo Salt, Physiogel
- Operational Efficiency
- Diversified Portfolio



Kwon Eun-Bi, Samsung Securities Conference, Mai 2024

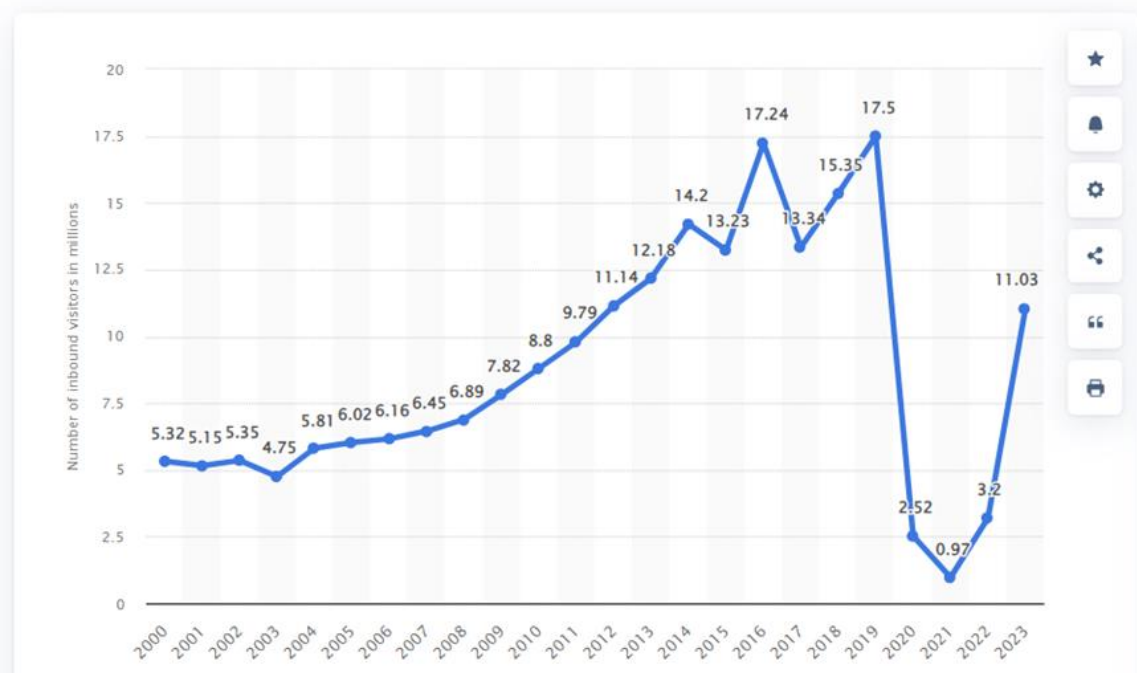
Source: VIA, May 2024

Variant Perception (III)

Passenger travel recovers – so does Korean cosmetics! (May 24)

Number of inbound visitors to South Korea from 2000 to 2023

(in millions)



THE KOREA ECONOMIC DAILY
GLOBAL EDITION

Companies Korean Investors Deals Markets Culture & Trends Perspectives Hidden Champions

Beauty & Cosmetics

Korean beauty brands show signs of turnaround in China

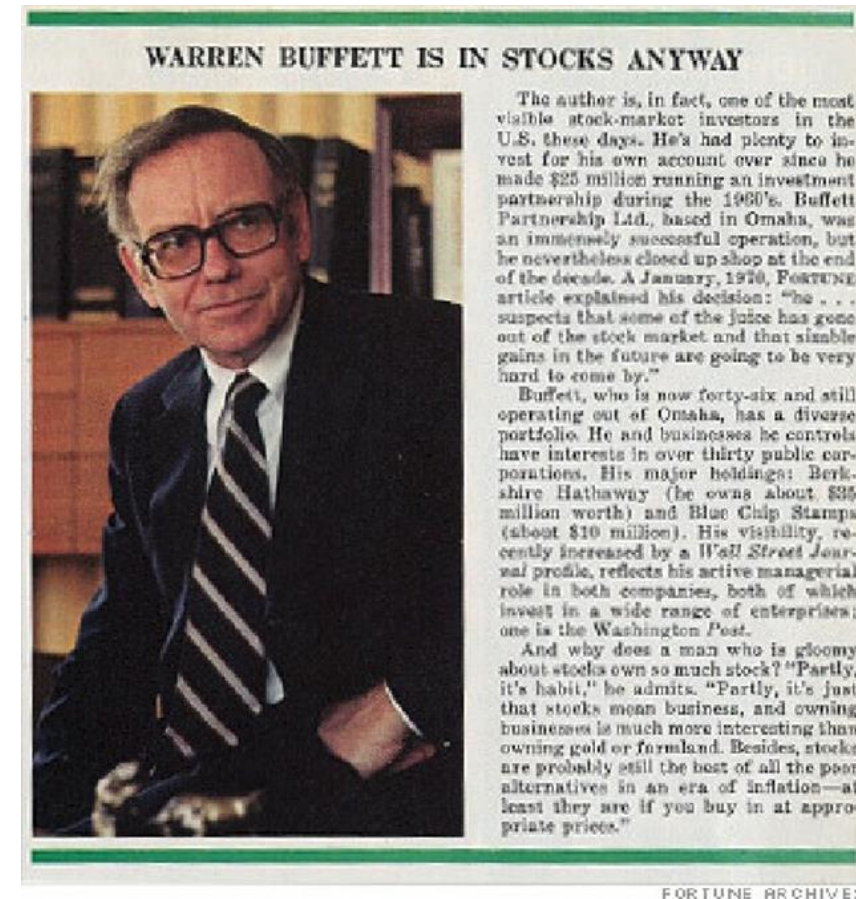
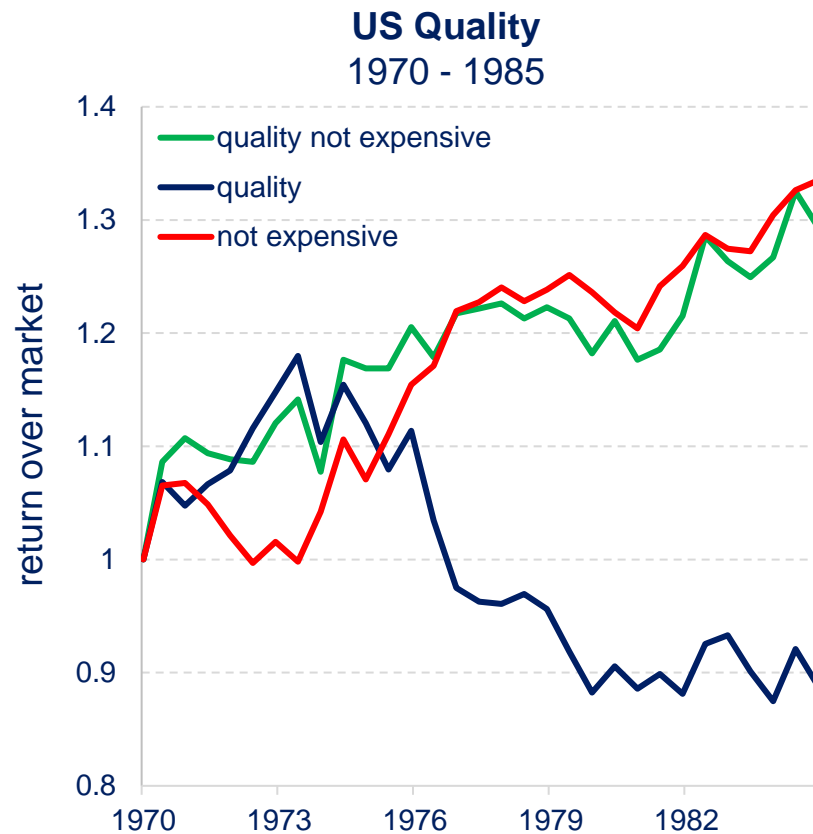
South Korea ranks third in China's cosmetics market among foreign brands

By Hyung-Joo Oh May 17, 2024 (GMT+09:00) | 2 Min read

Source: Korea Economic Daily, April 2024

Why invest in low-priced quality?

High quality at low prices tend to be less interest rate sensitive



Quelle: Edward Chancellor, VIC Juli 2022, Buffett, Fortune Magazin 1977



INDÉPENDANCE AM



Summary

- I. Indépendance AM overview
- II. Investment case





Indépendance *AM*



An independent asset manager specializing in investments in Small & Mid Caps for the past 30 years



THE LONG TERM FOR HORIZON

A 30-year track record.

A family-owned and independent structure: free decisions, agile management, **aligned interests.**



AN EXCLUSIVE SPECIALIZATION

A unique specialization : investment in **European small and medium-sized listed companies**



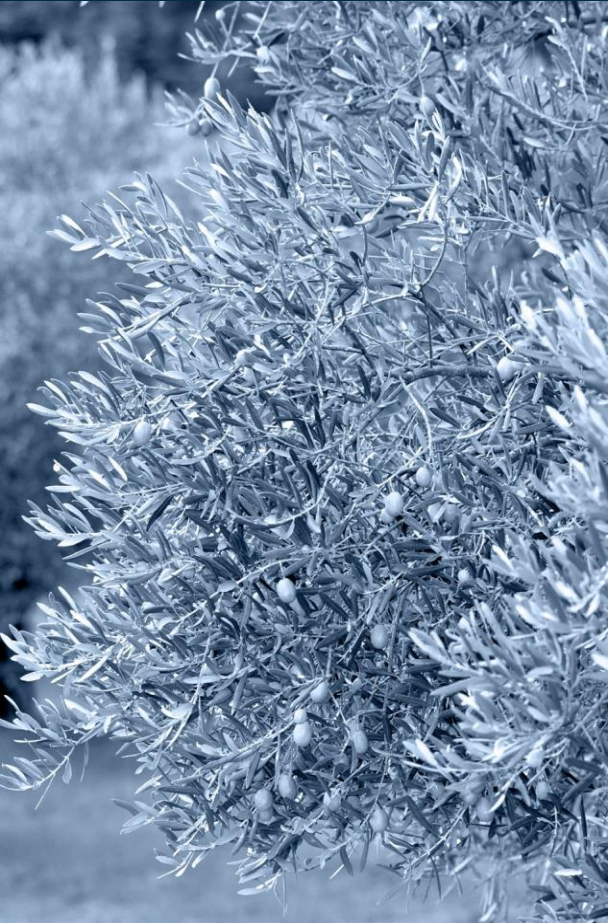
A STABLE METHODOLOGY

A unique Quality Value methodology: investing in companies with a profile of profitable and sustainable growth, and low valuation

Indépendance AM



| Funds | Funds | France Small | Europe Small | Mandates Institutional | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------------------------|---------------------------------|--|-------------------------------------|------------------------|----------|-----|----------------------|--------|-----|----------------------|--------|-----|----------------------|--------|-----|----------------------|--------|------|----------------------|--------|---|--|------|----------|-----|---------|--------|-----|-----------------------|--------|-----|-----------------------|--------|--|
| Asset Class | Micro / Small Caps | Small & Mid Cap | Small & Mid Cap | SMid Cap Europe | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment geographies | France & Europe | France | Europe | France & Europe | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax Eligibility | Closed end | PEA | PEA-PME | PEA | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Extra financial | SFDR Article 8 | SFDR Article 8 | SFDR Article 8 | SFDR Article 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annualized performances | Target : >10% p.a. | Over 30 years: +13.2% p.a. | Over 5 years: +14.3% p.a. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rankings (as of 31/04/2023) | | <table border="1"> <thead> <tr> <th></th> <th>Rank</th> <th>Quartile</th> </tr> </thead> <tbody> <tr> <td>1 y</td> <td>2nd / 55</td> <td>★★★★ 1</td> </tr> <tr> <td>3 y</td> <td>1st / 52</td> <td>★★★★ 1</td> </tr> <tr> <td>5 y</td> <td>1st / 51</td> <td>★★★★ 1</td> </tr> <tr> <td>8 y</td> <td>2nd / 45</td> <td>★★★★ 1</td> </tr> <tr> <td>10 y</td> <td>1st / 41</td> <td>★★★★ 1</td> </tr> </tbody> </table> | | Rank | Quartile | 1 y | 2 nd / 55 | ★★★★ 1 | 3 y | 1 st / 52 | ★★★★ 1 | 5 y | 1 st / 51 | ★★★★ 1 | 8 y | 2 nd / 45 | ★★★★ 1 | 10 y | 1 st / 41 | ★★★★ 1 | <table border="1"> <thead> <tr> <th></th> <th>Rank</th> <th>Quartile</th> </tr> </thead> <tbody> <tr> <td>1 y</td> <td>9 / 158</td> <td>★★★★ 1</td> </tr> <tr> <td>3 y</td> <td>2nd / 147</td> <td>★★★★ 1</td> </tr> <tr> <td>5 y</td> <td>1st / 126</td> <td>★★★★ 1</td> </tr> </tbody> </table> | | Rank | Quartile | 1 y | 9 / 158 | ★★★★ 1 | 3 y | 2 nd / 147 | ★★★★ 1 | 5 y | 1 st / 126 | ★★★★ 1 | |
| | Rank | Quartile | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 y | 2 nd / 55 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 y | 1 st / 52 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 y | 1 st / 51 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 y | 2 nd / 45 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 y | 1 st / 41 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Rank | Quartile | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 y | 9 / 158 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 y | 2 nd / 147 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 y | 1 st / 126 | ★★★★ 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



A Quality Value investment methodology

Objective: build a portfolio of profitable investments with limited risk.

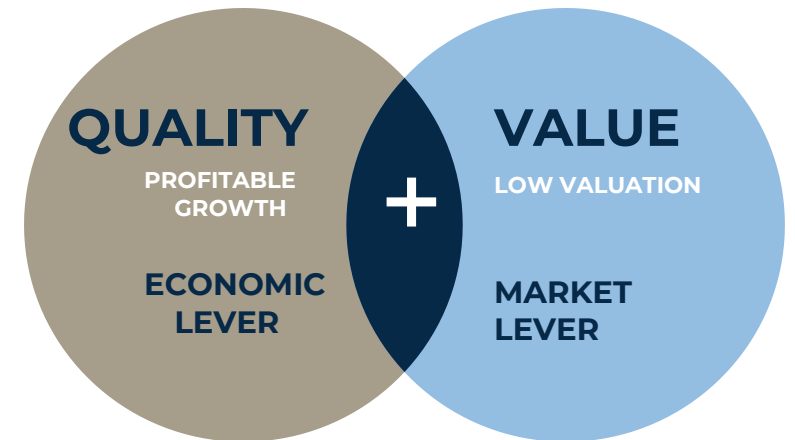
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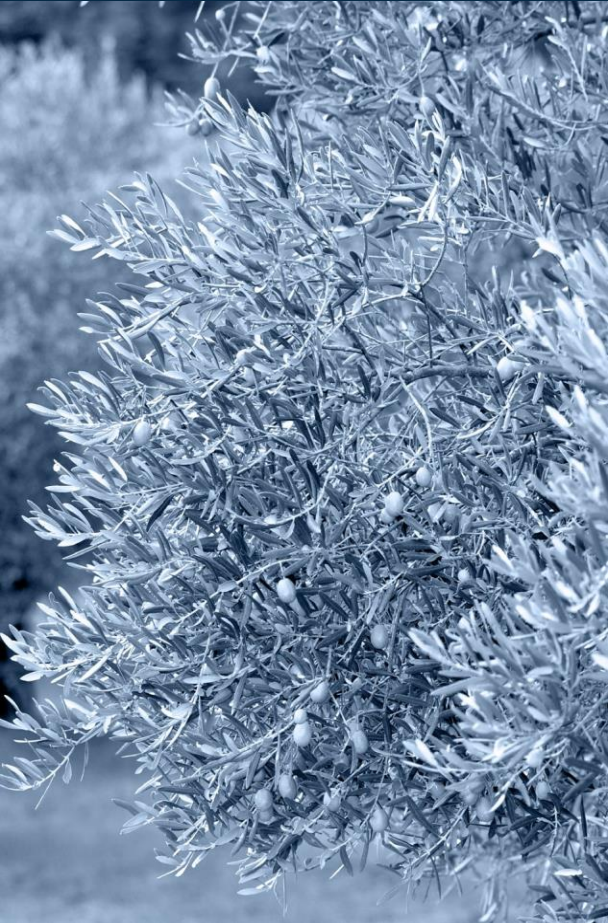
Developed over 30 years:

- 1 tangible and measurable criteria to select these companies
- 2 an active management process to maintain a discounted portfolio

2024

Profitable growth AND low valuation

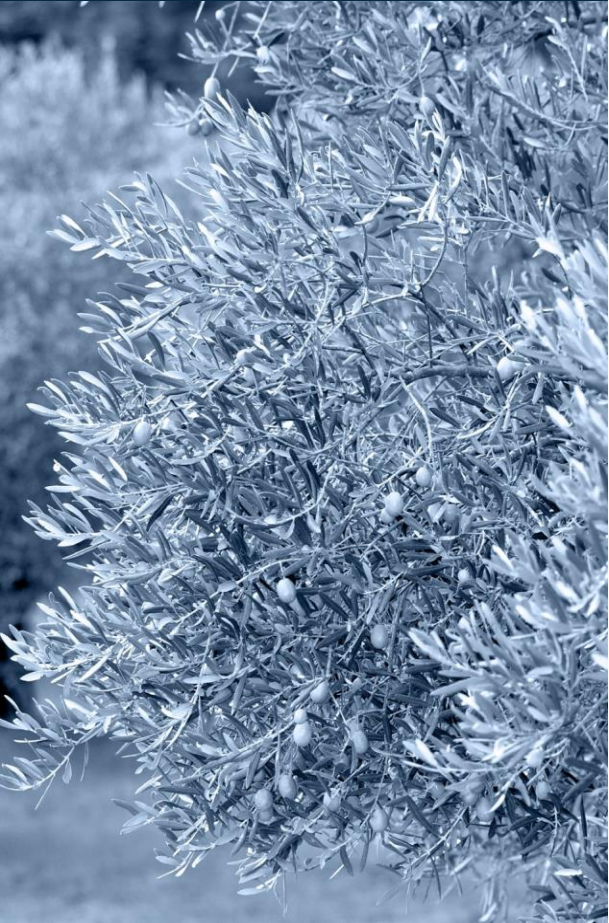




A high-performance investment universe

Profitable Growth at Low Price





Performance uncorrelated with value and growth cycles

| | | Ranking 10 years Equity Funds France Small & Mid |
|---------------------|---|--|
| Decade 1997-2006 | 1 PERIOD FAVORABLE TO « VALUE » STYLE – Annualized performance: +17,2% – Outperformance : 7/10 years, Positive 10/10 years Of which during internet bubble: In 2001 (+0.3% vs -17%) and 2002 (+3.1% vs -16.2%) | N°1 |
| Decade 2011-2021 | 2 PERIOD FAVORABLE TO « GROWTH » STYLE – Annualized performance: +20,3% – Outperformance : 8 / 10 years | N°1 |

➔ Maintaining a low average valuation whatever the context

➔ Performance of the strategy in different market environments



Investment case





Investment Case: D'Amico International Shipping





D'Amico International Shipping

Quick overview



A PRODUCT TANKER OPERATOR

A **product tanker operator** listed since 2007 on the **Milan Stock Exchange** (ticker DIS) with a **market cap of ~850M€** at 6,88€/share. The parent company D'Amico is owned by the D'Amico family and it is operating dry cargo and containerships operations

A MODERN FLEET FOR REFINED OIL PRODUCTS

Serving **trading houses** and **oil companies** with **36 ships** (29 owned or bareboat chartered) including **6 LRI, 23 MR and 6 Handysize ships**. **Modern owned fleet with average age of 8.8 years**. The fleet is composed of **80% eco design ships** (vs 36% industry average) and **80% IMO classed** (vs 47%).

ATTRACTIVE FUNDAMENTALS AND UNDEMANDING VALUATION

A disrupted market:

- Lasting war in Ukraine.
- Houthi conflict in Yemen increasing the journey for ships.
- Refinery closures in Europe

Low valuation metrics with FY2024 expected in line with FY2023 or slightly better.

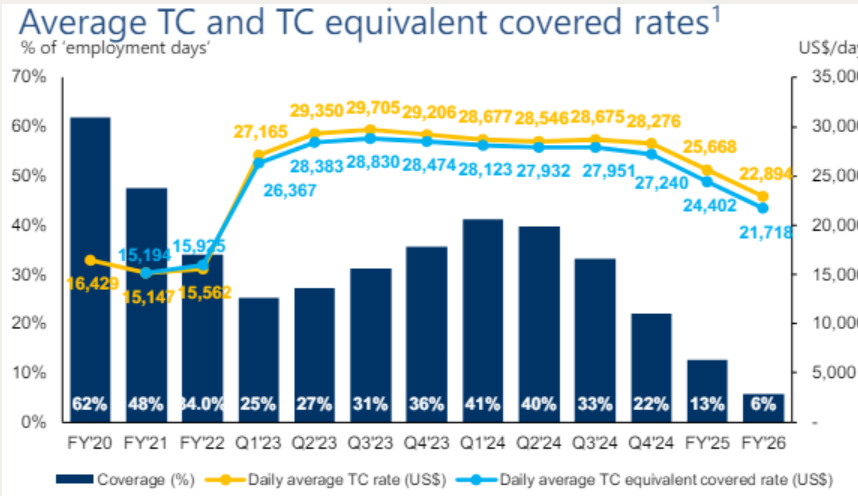


A compelling value investment case

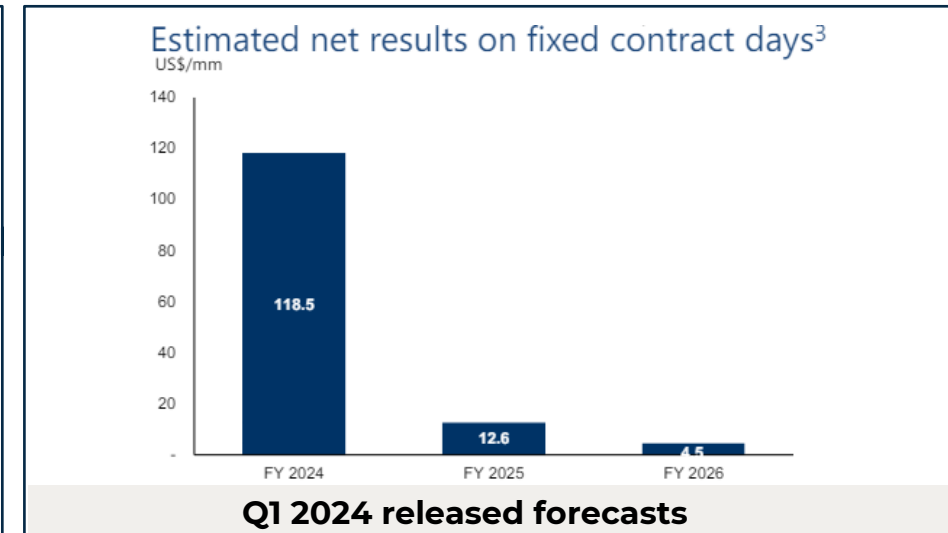
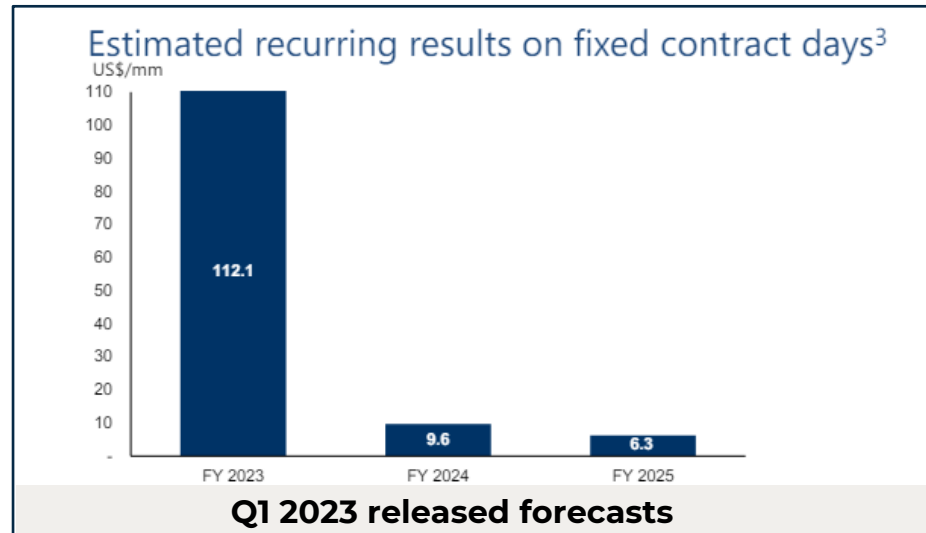


D'Amico International Shipping

Attractive fundamentals (1/2)



- **Closures of refineries in Europe** means imports of refined products from refineries on other continents.
 - **The war in Ukraine** has revamped the flows of oil products around the world, increasing the demand for product tankers.
 - **The Houthi conflict in Yemen** forces ships to circumnavigate Africa, adding days to the journey (voyage duration increases from 24 to 42 days for the key trade Jubail-Amsterdam)
- **Resulting in high charter prices (US\$ 38,201 in Q1'24 vs. US\$ 36,652 achieved in Q1'23 for spot rates) and good visibility.**





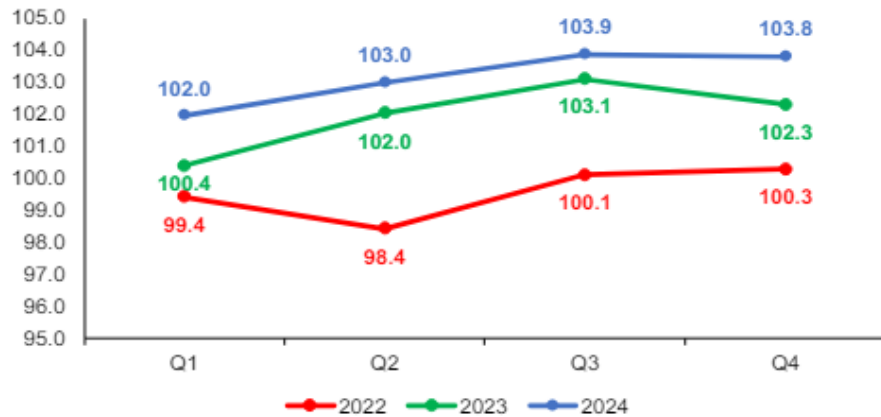
D'Amico International Shipping

Attractive fundamentals (2/2)



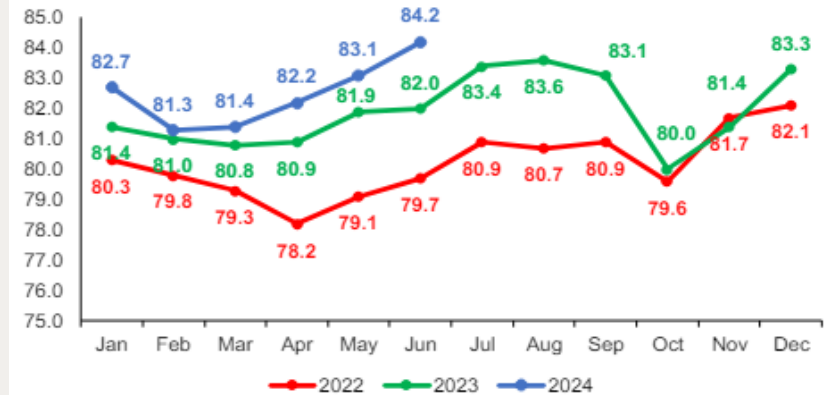
Global oil demand¹

Million barrels per day

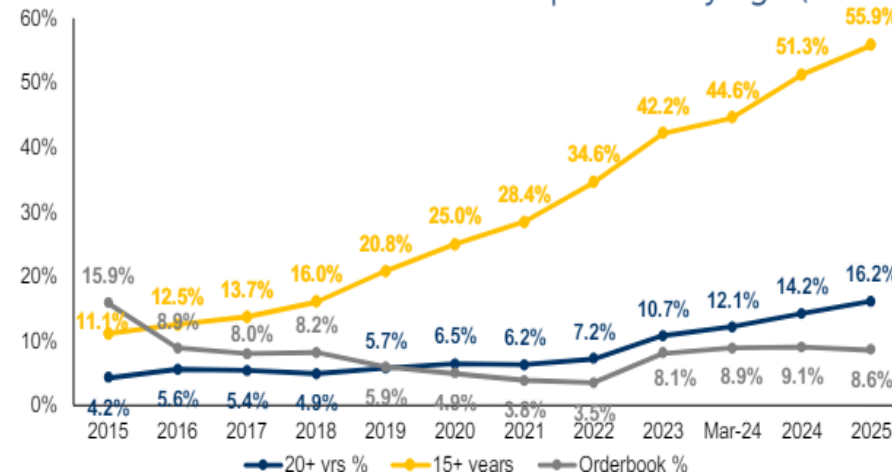


Global refinery throughputs¹

Million barrels per day



Historical and forecasted fleet composition by age (MRs and LR1s)



- **Global oil demand** remains unabated while fleets are ageing fast and newbuilds remain scarce.
- D'Amico boasts a **very modern fleet** with the oldest vessel MT Glenda Melanie (2010) sold in Q1 24. The **average age of the owned and bareboat chartered fleet stands at 8.8 years.**
- The **value of the fleet is increasing** as well with a discount to NAV around 24% at Q1 24.



D'Amico International Shipping

Attractive valuation

Despite the re-rating (+700% since 2022) d'Amico remains at an **attractive valuation** with a strong FCF yield.

- **Forward P/E stands in an undemanding 5x-6x range.**
- **Value of the fleet continues to increase** due to regulations and uncertainties beneficial to the mid-sized ships that d'Amico owns.

d'Amico International Shipping – Key data

| Y/E Dec (USD M) | 2022A | 2023A | 2024E | 2025E |
|-------------------|-------|-------|-------|-------|
| TCE Earnings | 330.0 | 397.0 | 364.0 | 273.5 |
| EBITDA | 226.6 | 277.6 | 248.5 | 158.0 |
| EBIT | 165.7 | 215.2 | 189.1 | 101.5 |
| Net income | 134.9 | 192.2 | 169.2 | 82.83 |
| Adj. EPS (USD) | 0.11 | 1.59 | 1.37 | 0.68 |
| Net debt/-cash | 409.9 | 224.3 | 156.9 | 82.82 |
| Adj P/E (x) | 18.7 | 2.9 | 5.4 | 10.9 |
| EV/EBITDA (x) | 13.2 | 2.9 | 4.3 | 6.3 |
| EV/EBIT (x) | 18.1 | 3.7 | 5.7 | 9.9 |
| Div ord yield (%) | 16.3 | 8.9 | 5.8 | 2.8 |
| FCF Yield (%) | 2.7 | 34.8 | 12.8 | 11.4 |

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 08/05/2024



6,77 EUR

+5,86 (643,96 %) ↑ depuis 5 ans

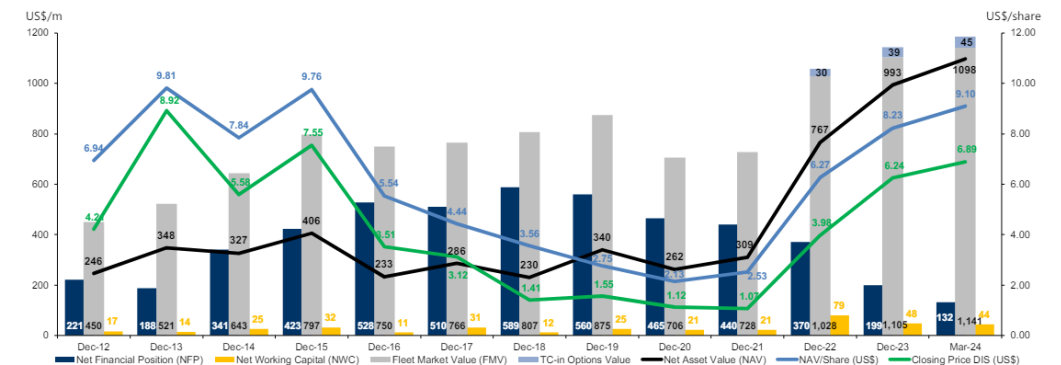
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1 j | 5 j | 1 m | 6 m | YTD | 1 a | **5 a** | Max.



| | | | | | |
|-----------|------|------------|----------|--------------|------|
| Ouverture | 6,96 | Capitalis. | 846,48 M | Max. 52 sem. | 7,86 |
| +Haut | 6,96 | Cours/bén. | 4,54 | Min. 52 sem. | 3,22 |
| +Bas | 6,77 | Rend. div. | 3,43 % | | |

DIS' Historical NAV evolution^{1,2,3}



| | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Mar-24 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Discount to NAV (End of Period) | 39% | 9% | 29% | 23% | 37% | 20% | 60% | 44% | 48% | 58% | 37% | 24% | 24% |

As at 31 March 2024, DIS' NAV^{1,2,3} was estimated at US\$ 1,098.3m, its fleet market value at US\$ 1,141.4m² and its closing stock price was 24% below its NAV/share.



D'Amico International Shipping

Last thoughts



Two of our positions in the oil & gas sector did very well this year, let's hope d'Amico will follow the same path!





INDÉPENDANCE AM

ISS, a leading global workplace and facility management company.



Global player

with 310,000 employees, 30+ countries and 40'000 customers

Services

Cleaning, Food, Technical, Workspace, Security, Support

Industries

Aviation, Banking & Professional Services, Healthcare, Life Sciences, Industry & Manufacturing, Technology



Aviation:

26 of the world's 30 largest airlines, 100+ Airports globally

Banking:

20 of the world's 30 largest Banks, 40+ countries,
10'000 location supported daily

Healthcare:

100+ Key accounts, 700+ Hospitals across the world

Life Science:

30+ Customers across the world, 45+ countries,
5'000 working in life science

Manufacturing:

50 largest manufacturing companies in the world
with 1'000'000+ square meters of production plants

Technology:

3 of the top 5 global Tech Companies



Why do we like this sector?

Oligopolistic:

4 leading companies

Sodexo, CBRE Group, **Compass Group**, we own 3 😊

Economy of Scale:

Bulk purchasing / supplier negotiation,
Operational Efficiency, Technology / Innovation,
Risk Management & Resource Allocation

➤ *by leveraging on this, larger companies
have the cost and quality leadership*

High Switching Costs:

One stop shop for Key clients, small cost items



Why do we like ISS (1)



It is one of the **top 4** Facility Management Companies Worldwide.

It has recovered its **Revenues and Operating margins** to **pre Covid levels**.

ISS was generating a **1.8bn DKK FCF in 2023** on a Market Cap. of 25bn DKK and was able to reduce the financial leverage substantially to **2.2x Net debt /EBITDA**

ISS has a very high **customer retention** rate and was even able to increase it to **95%**

Organic growth¹⁾ 9.7%



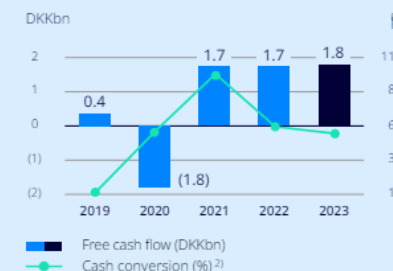
¹⁾ Excluding the impact of IAS 29

Operating margin¹⁾ 4.3%



¹⁾ Excluding the impact of IAS 29

Free cash flow¹⁾ 1.8 DKKbn



¹⁾ Excluding the impact of IAS 29

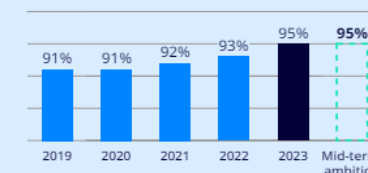
²⁾ Free cash flow/Operating profit before other items in %

Financial leverage 2.2x



¹⁾ Excluding restructurings and one-off costs

Customer retention 95%



Why do we like ISS (2)



ISS A/S established several long-term targets as part of “One ISS”

Organic growth 4-6%, starting 2024

Operating margin above 5%, starting 2024

To convert more than 60% of its operating profit into free cash flow

Keep an investment-grade Rating and a Net Debt 2.0-2.5 x EBITDA

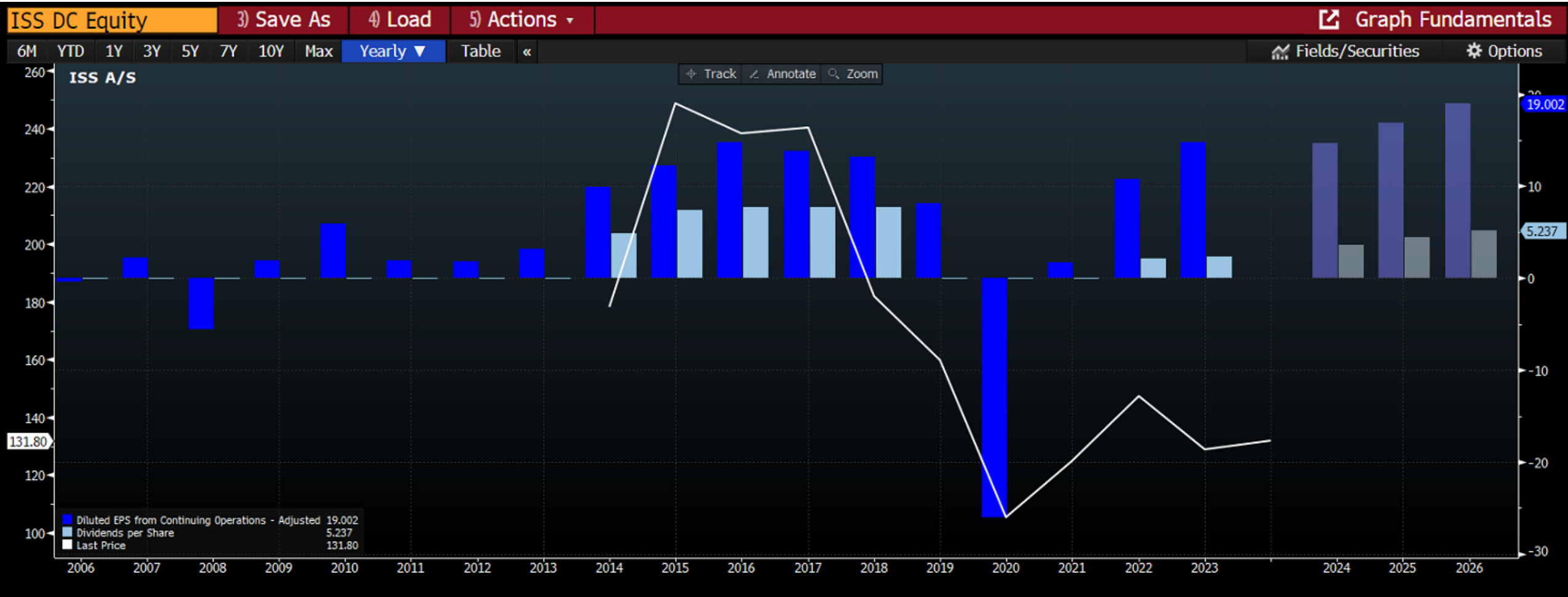
Dividend Payouts of 20-40%

Allocating capital to value-creating investments and share buybacks

But now, the share price is still depressed



Operating EPS would justify DKK 240-260



ISS Shares trade at a deep discount



- P/E 2025 of 7.8x vs. historical average of 20 x
- Free Cash Flow Yield 12% on 2025E
- ROE of 25%, P/Book 1.9x, Div. Yield 3.4%

- **Share price: DKK 132.4**
- **Intrinsic Value of DKK 250 per share and IRR of 18.7% at current prices.**



Last but not least here, a real live example of how ISS uses new technologies to further improve their operational efficiency.

(Video taken at the Prague Airport, Alex Rauchenstein)





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Elis SA – commercial services with barriers to entry



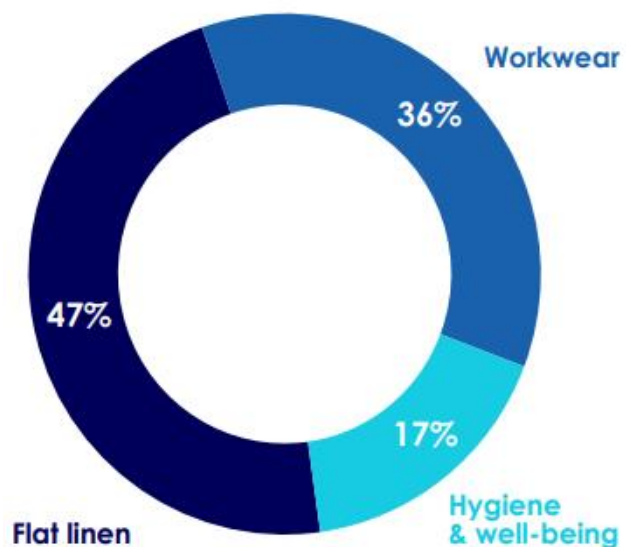
Lars Jakob Selsås,
analyst

Elis provides business customers with textile products in a rental model

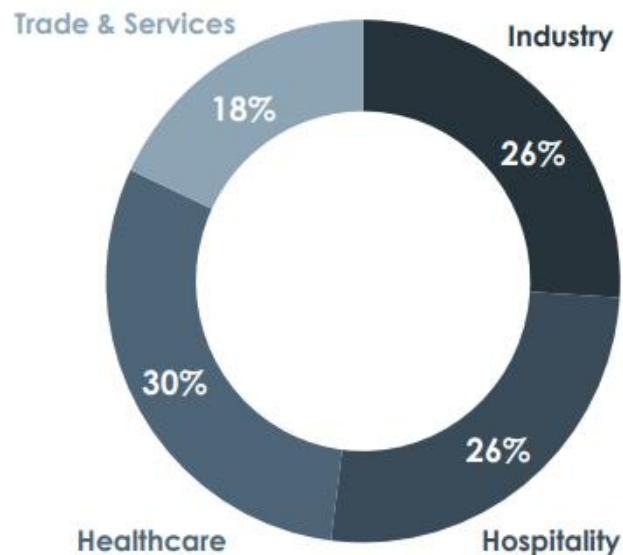


Breakdown of EUR 4.3bn revenue in 2023

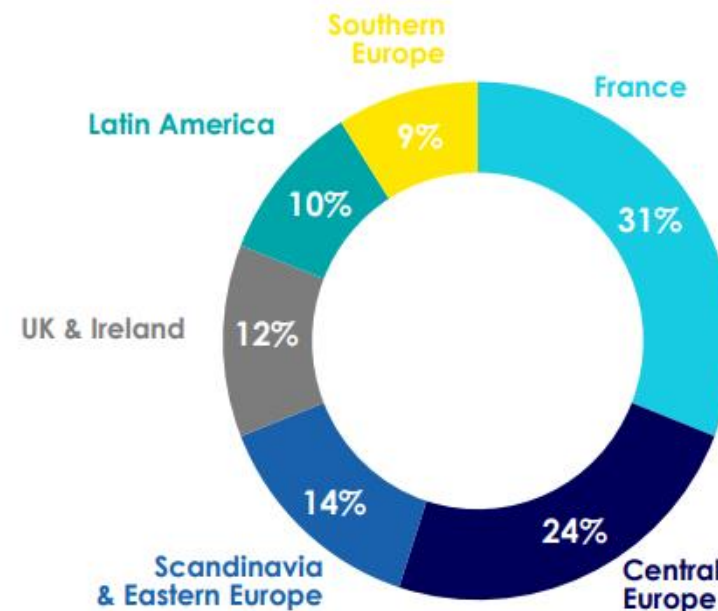
By activity



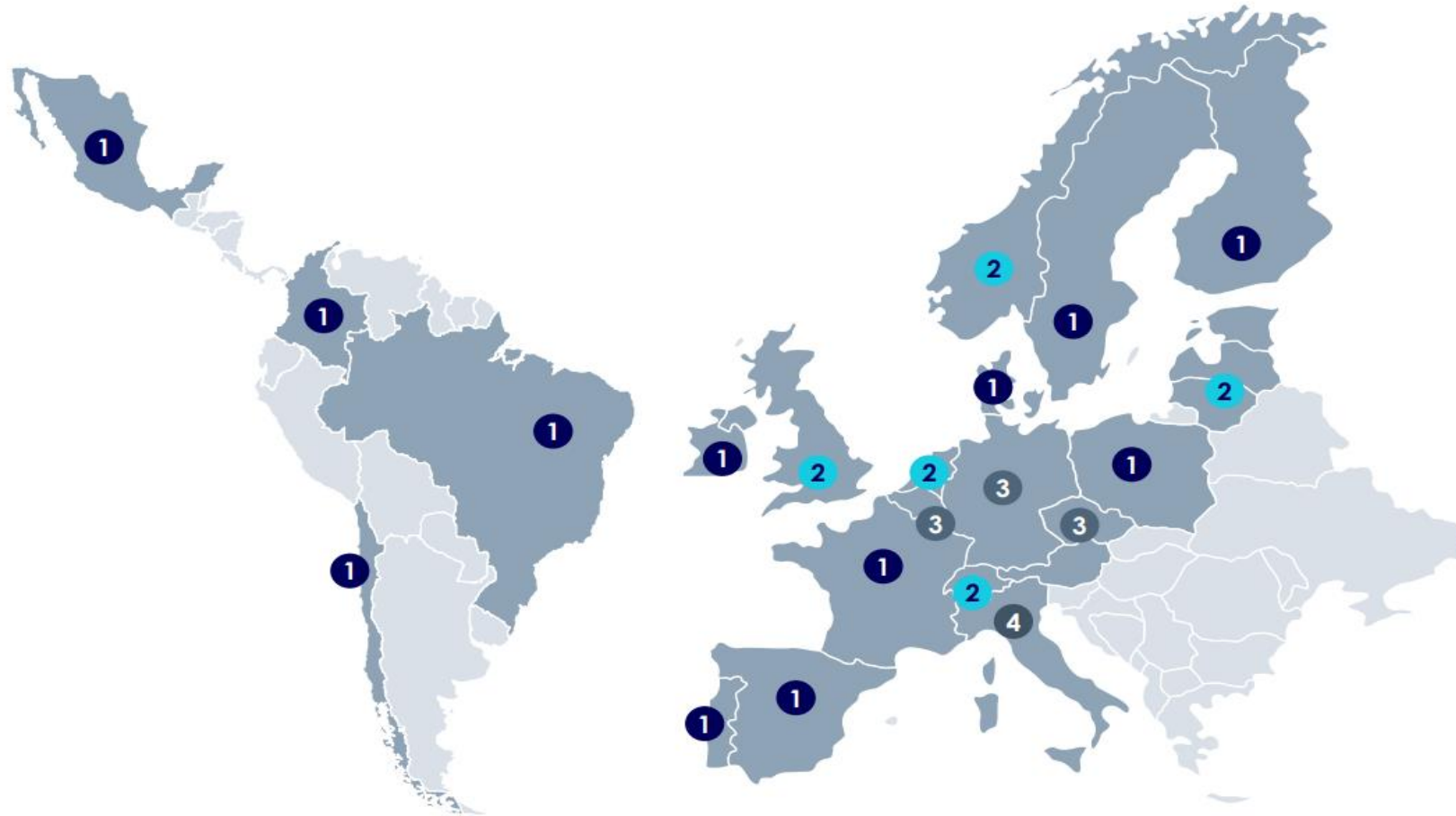
By market



By geography



Elis aims to be a leader in every geography where it participates



Scale provides moat

- Leads to high load factor and lower cost per item
- Prevents newcomers from setting up shop
- Leads to cost savings in textile purchasing
- Consolidates local markets

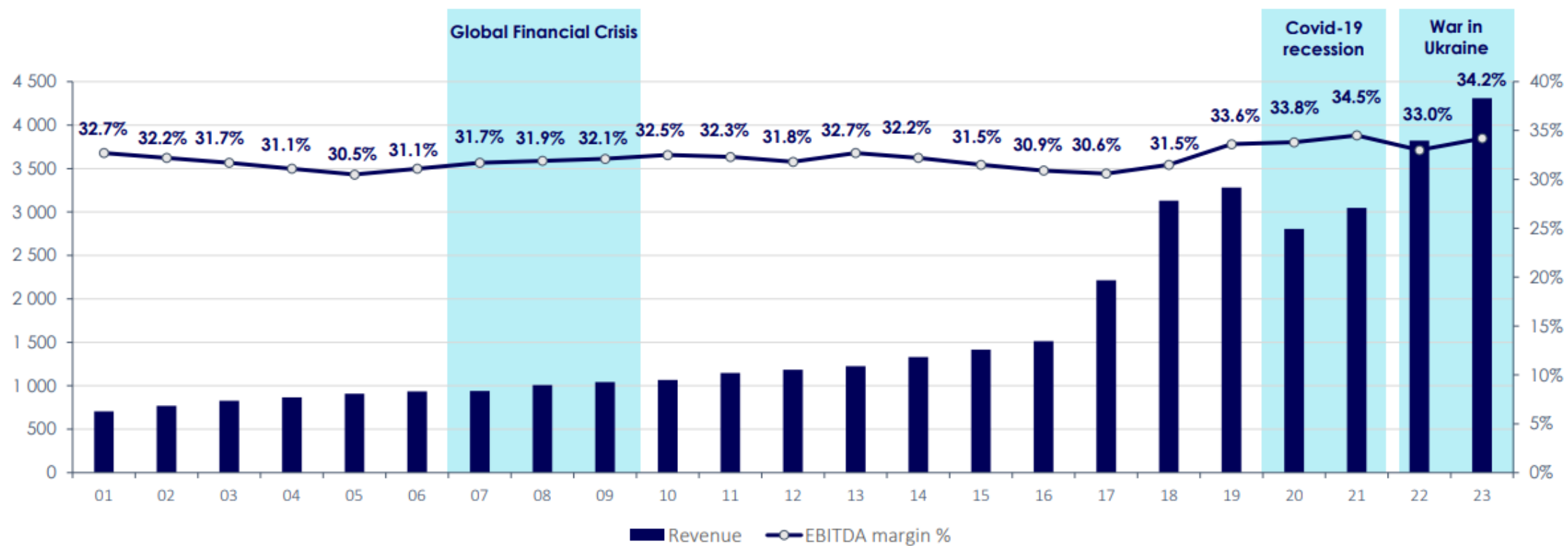
Elis can pass on inflation

- Competitors have to increase prices, too
- Insourcing is much more expensive
- Textile rent make up a small part of customers' cost base

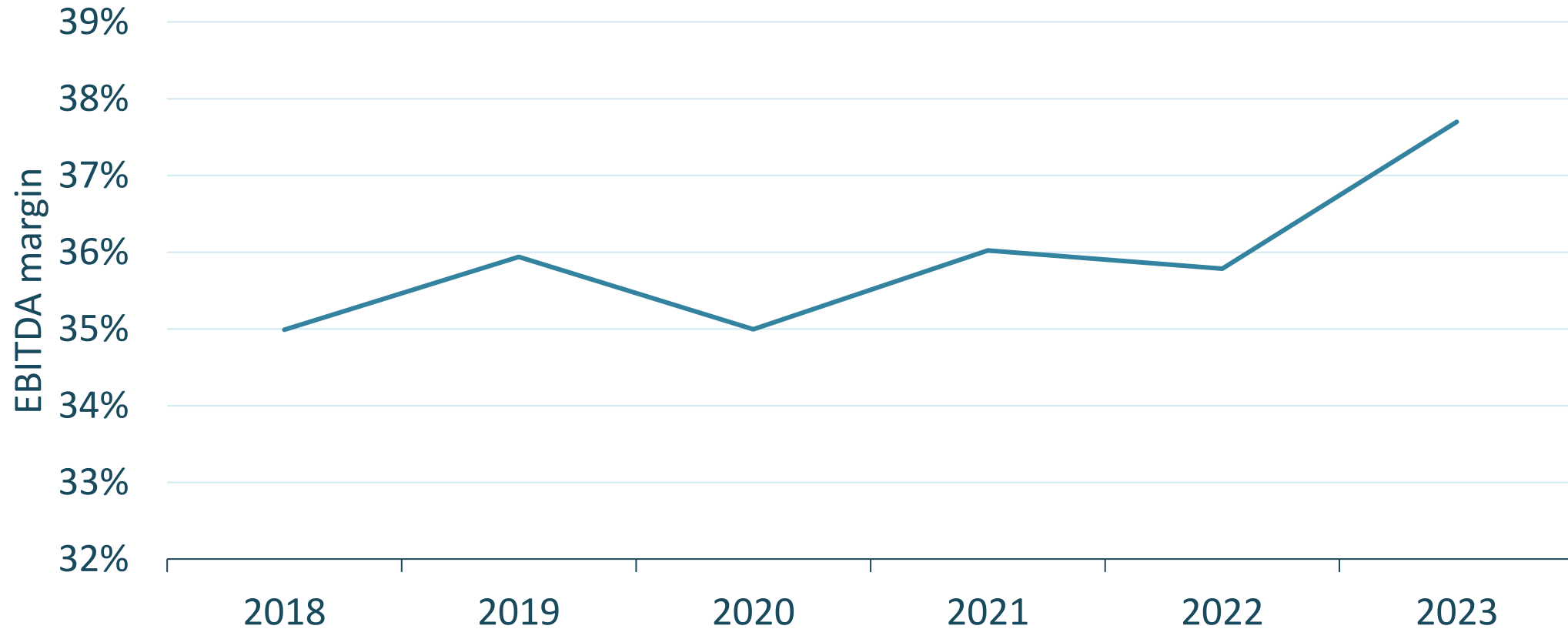
Cyclical? Yes, but less than you might think

- 50% of revenue is fixed fee contracts
 - unaffected unless customer goes bankrupt
- 50% of revenue is volume based contracts
 - Half of which is not affected as clients are non-cyclical (e.g. Healthcare)
 - Other half is cyclical (e.g. Hospitality) – but only volumes, not price

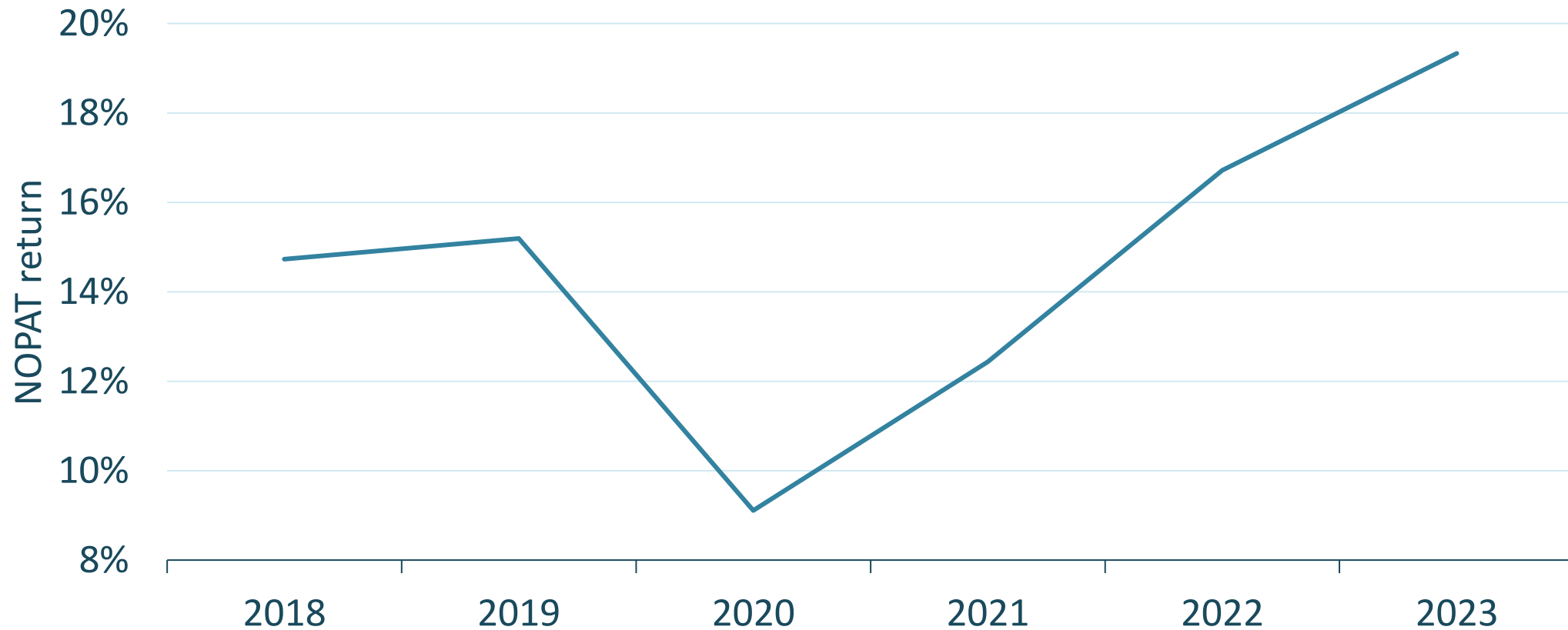
Elis' business model counters times of crisis well



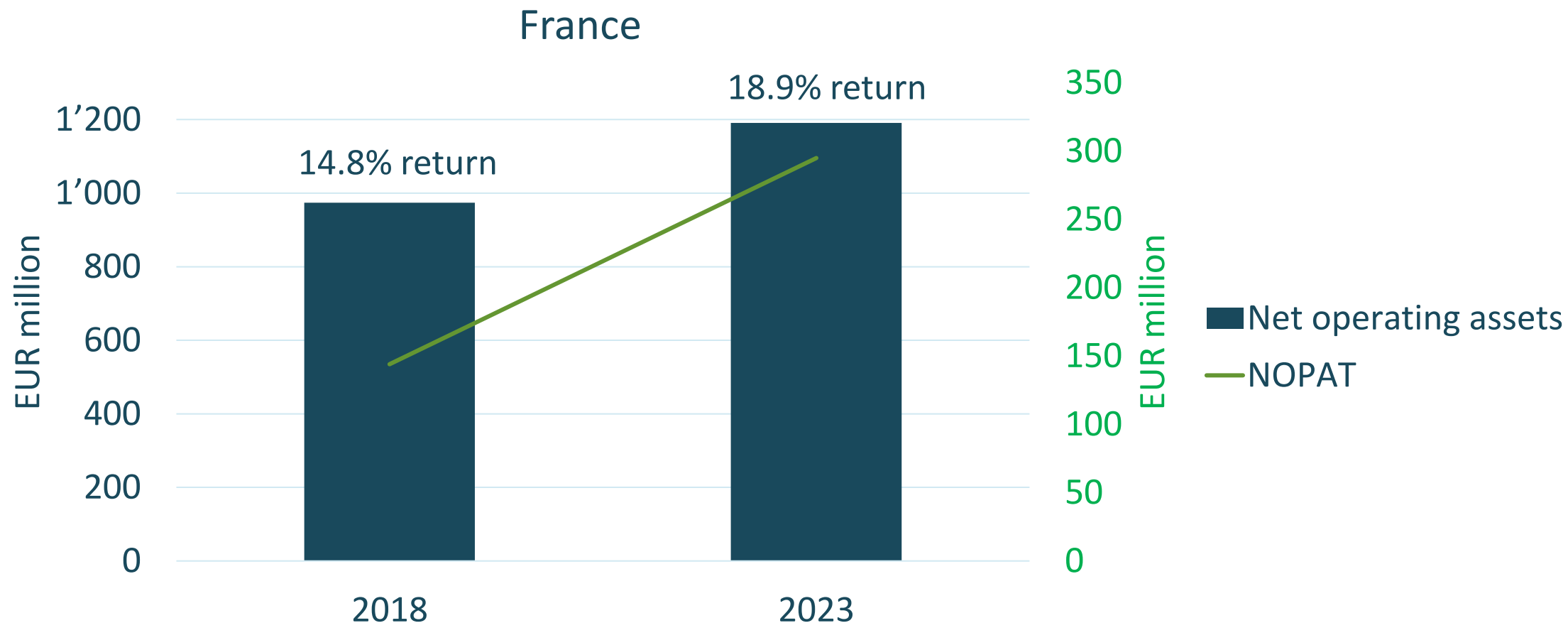
France: margins increase as business grows



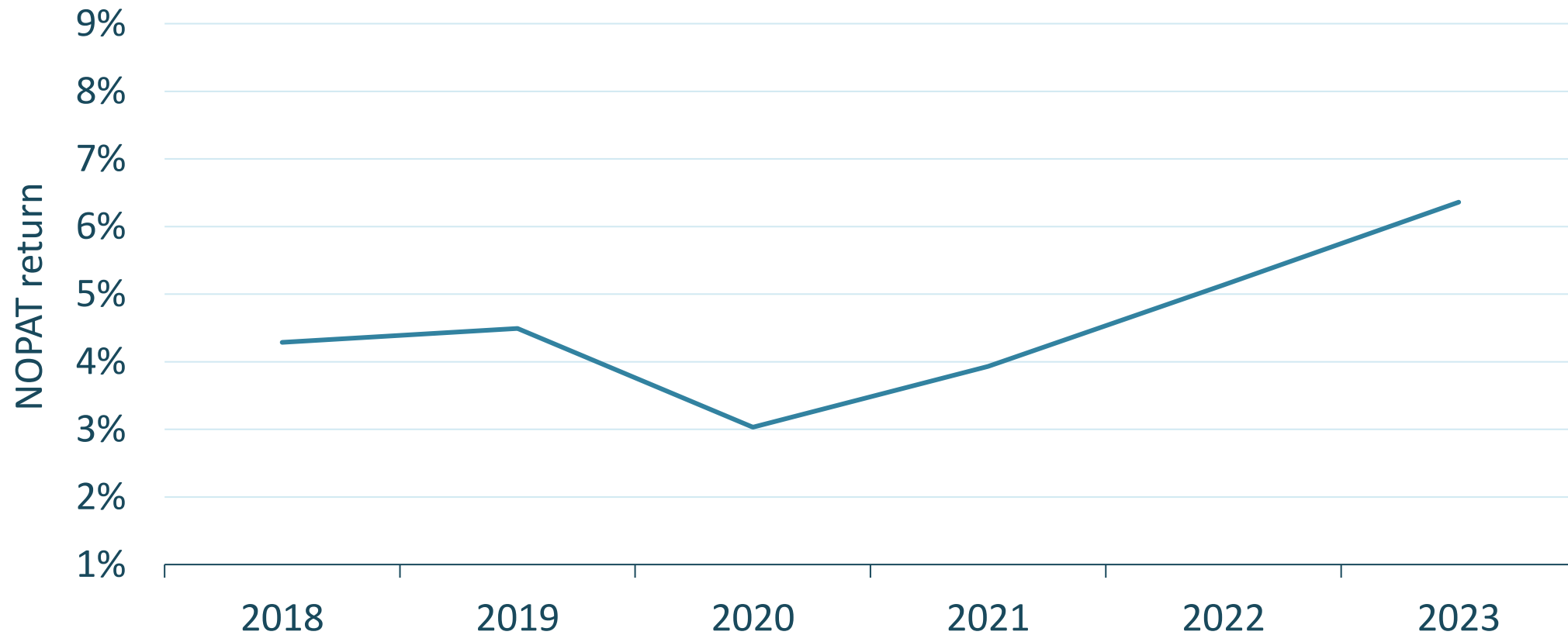
France: capital returns increase



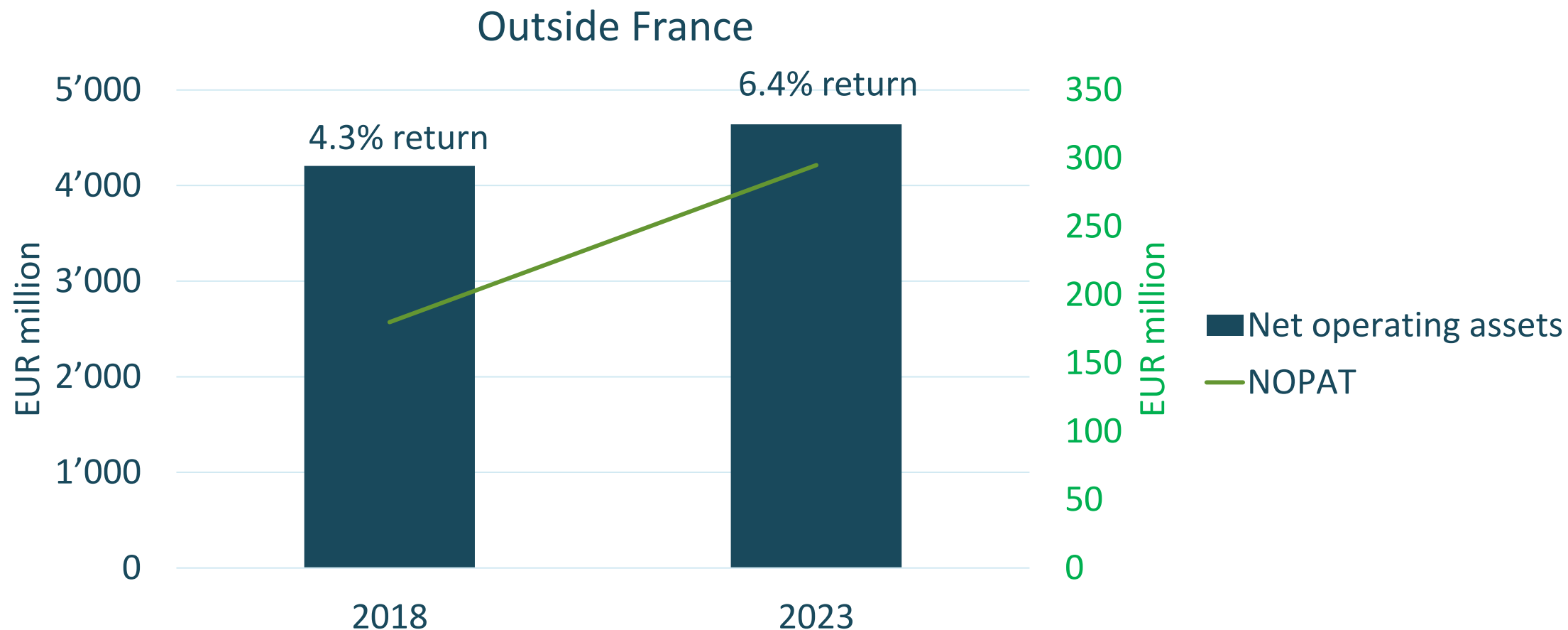
Marginal capital return of 38% drive overall increase



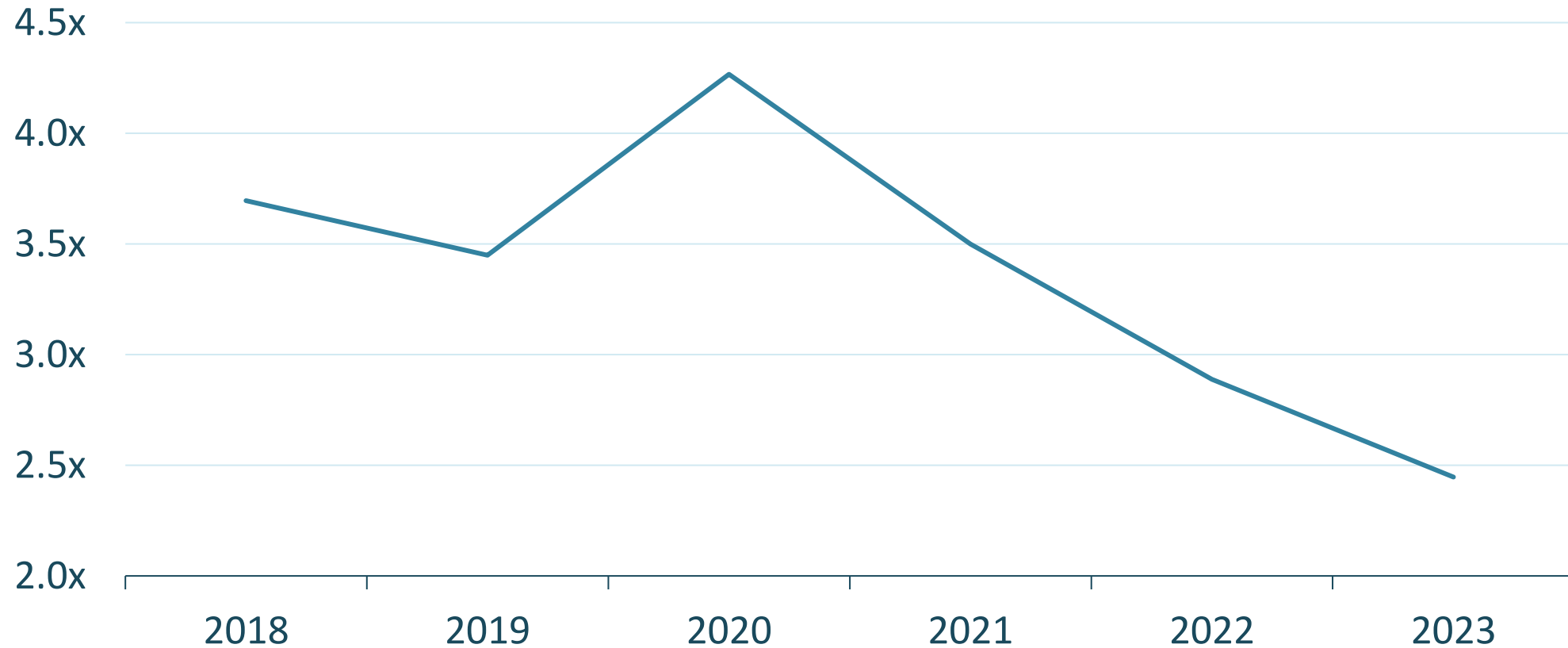
Outside France: capital returns are lower, but increasing



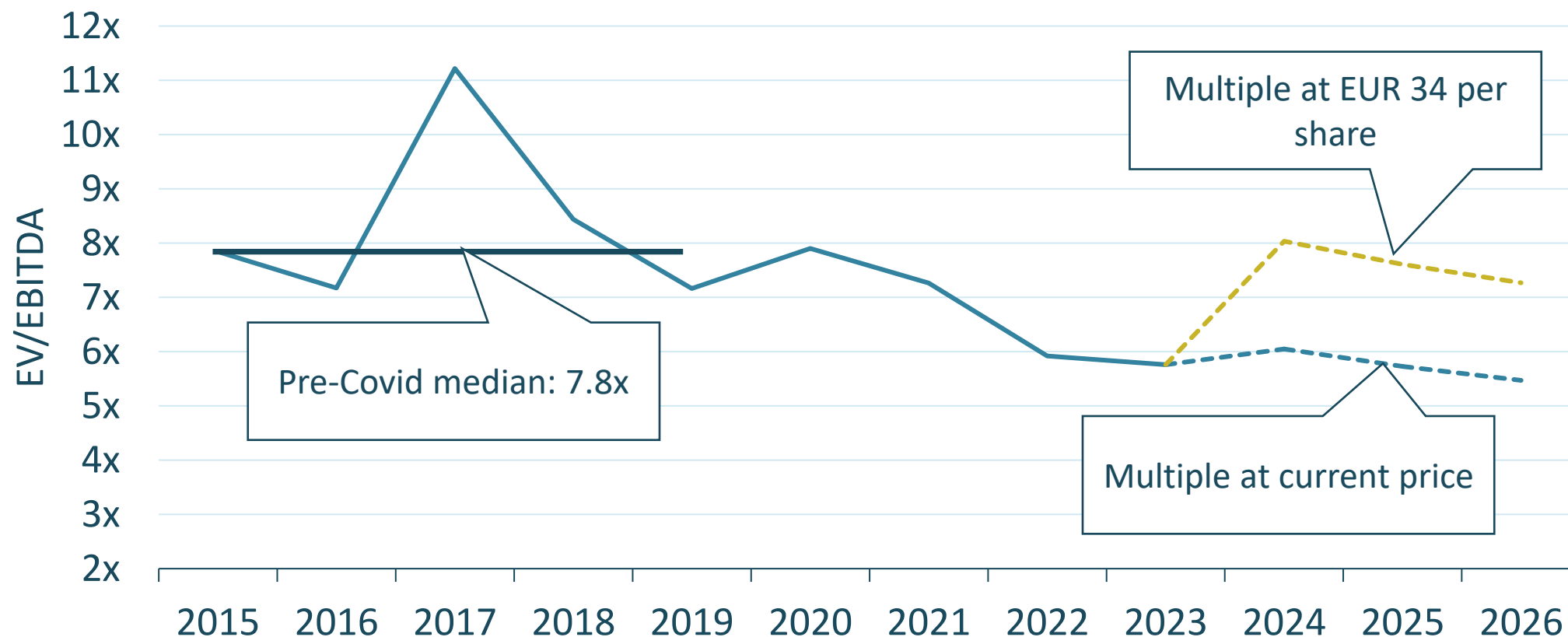
Marginal capital return of 26% drive overall increase



Net debt/EBITDA was high, but has come down



Current EBITDA-multiple does not reflect intrinsic value At historic multiple: intrinsic equals EUR 34 per share



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