Selected Session Highlights from European Investing Summit 2013

(listed alphabetically by instructor's last name)

DAN ABRAHAMS, PRAXIENT LEOPARD FUND, NORTHGATE (LONDON: NTG)

Light commercial vehicle rental business operating in the UK, Ireland and Spain. Commoditized, cyclical and capital intensive industry, but mid-cycle fleet of 100K implies a 12% steady state FCF yield on recent market capitalization. Asset-based valuation considerations: enterprise value per van following rescue rights issue (mid 2009): £8.1k; current enterprise value per van: £11.1k. The equity may represent a "repeated opportunity" as the share price tends to be more volatile than business value. Acquisition target in the absence of shareholder returns (speculated target for Enterprise and Avis; open shareholder register).

http://www.valueconferences.com/2013/10/eis13-dan-abrahams/

FRANÇOIS BADELON, RAPHAËL MOREAU AND DAVID POULET, AMIRAL GESTION

BOIRON (Paris: BOI): Consumer brand focused on homeopathic medicine. Two types of products: non-proprietary homeopathic medicine prescribed by doctors (52% of sales) and OTC consumer brands (48%). ~50% of sales in 60 countries outside of France. Compounder with high incremental returns, long runway in global markets, little regulatory risk and no patent risk. While 2013 operating profit of €126 million is much higher than in prior years, there are specific factors explaining this and the 2013 level represents a sustainable base. This implies an EV/EBIT of 7x. 62% owned by the Boiron family. Management communication has recently turned from "socialist" to "capitalist."

Small-cap French auto parts makers: ROEs of auto parts makers have improved in recent years. Increasing concentration and new emissions regulations (e.g. leading to OEMs compensating them for R&D) are likely to sustain this. Le Belier (Paris: BELI), MGI Coutier (Paris: MGIC) and Montupet (Paris: MON) remain relatively cheap at 5-8x 2014E P/E and 5-6x 2014E EV/EBIT, especially compared to larger auto parts companies such as Valeo, Plastic Omnium and Faurecia which trade at 8-10x 2014E P/E and 7-8x 2014E EV/EBIT. Le Belier is the worldwide leader in aluminum braking systems (42% market share). MGI Coutier, expert in fluid transfer, has ~50% of sales outside Europe. Montupet has a poor track record, but is a technological leader in the now duopoly cylinder heads market. Strong FCF (~10-13% in 2013&14) and backlog.

http://www.valueconferences.com/2013/10/eis13-badelon-moreau-poulet/

PHILIP BEST AND MARC SAINT JOHN WEBB, ARGOS INVESTMENT MANAGERS

European small and micro-caps (~5,000 out of ~8,000 total European-listed companies have a market capitalization of <€100 million). Stocks that brokers push, are the ones to avoid. Prepared to look at anything so long as the price is right. Five ideas highlighted:

BIESSE (Milan: BSS): Manufactures woodworking machinery sold to household products manufacturers, which have been suffering due to the economic downturn. Rising order book suggests significant recovery in sales in 2014-15. Very international group (largest client: IKEA; only ~10% of revenue from Italy). #2 in fragmented world market behind German company Homag. Trades at discount to Homag. If return to peak profitability, P/E would be <3x. Gearing of 40%. A play on capex recovery at European household products companies and rising labor costs in China.

CAMELLIA (London: CAM): Owns real estate in London that likely exceeds value of whole company. In addition to core agricultural business, has excess net cash (~40% of market value), an equity portfolio and other non-core holdings. No broker coverage. Half of shares owned by a charitable foundation. Perception that it is a “value trap.” While Best and Webb do not expect a change of ownership, incremental positives include: company has been buying back shares following exclusion from a UK share index recently, generational change element, recently created IR position.

CHARGEURS (Paris: CRI): 3 operating divisions (woolcombing, interlining for garment industry, thin protective film business called Novocell). To rationalize to Novocell business only. Should be debt-free by end of 2013. May trade at ~5x 2015 P/E based on Novocell earnings in 2015. Novocell is a world leader.

SINGULUS TECHNOLOGIES (Frankfurt: SNG): core business is the manufacturing of replication lines for BlueRays (CDs, DVDs earlier). Now has monopoly worldwide. Value of >€100 million for MRAM and optical business cover entire market cap. Free option on recovery in capex in solar industry. Trades at small premium to book value and 5-7x 2015E P/E.

TANFIELD GROUP (London: TAN): 24% equity stake in Smith Electric Vehicles could be worth >$100 million versus Tanfield’s <£30 million recent market capitalization; also pending transaction to sell mobile lift business.

http://www.valueconferences.com/2013/10/eis13-best-webb/

DOMINIC FISHER, THISTLEDOWN INVESTMENT MGMT, PHAUNOS TIMBER FUND (LONDON: PTF)

London-listed closed end fund invested in global timber assets. Capital protection from 44% discount to NAV. Upside potential due to: 1) discount narrowing; 2) timber revaluation; 3) share buy backs. Fisher expects annualized returns of 9-25%. Reasons to be cheerful include the new board (capable and incentivized), which commissioned independent valuation, gave manager notice, confirmed commitment to continuation vote and is committed to simplify business and better fundamentals (e.g. New Zealand lumber exports increasing; US housing starts increasing; Brazilian plantations to benefit from weaker currency).

http://www.valueconferences.com/2013/10/eis13-dominic-fisher/

MASSIMO FUGGETTA, BAYES FUND, FERREXPO (LONDON: FXPO)

Producer of iron ore pellets with a 35 year old operation based in the Ukraine where it has extraction rights to the largest iron ore deposit in Europe. Iron ore market dynamics, Ukraine operations and 51% control by Kostyantin Zhevago make this an easy pass for most investors. However, these are all "known knowns." The overlooked facts are: 1) the nature of the iron ore pellet industry leads to a sustaining "pellet premium"; 2) valuation of <5x 2013E EBITDA (<5x based on average EBITDA in 2008-12); 3) low debt (1.2x 2013E EBITDA); 4) Zhevago is easily labeled a “Ukrainian oligarch” but is actually a clever, self-made entrepreneur (see his track record and recent involvement in Brazilian Ferrous Resources alongside Carl Icahn). In Fuggetta's words, the "stock is worth at least £3, a 2/3 appreciation from the current price."

http://www.valueconferences.com/2013/10/eis13-massimo-fuggetta/

DANIEL GLADIŠ, VLTAVA FUND, TOTAL PRODUCE (DUBLIN: TOT)

Large, Europe-focused B2B operator in a specialist sector: the sourcing, marketing, distributing, and packaging of fresh produce, including stone and soft fruit (15% of revenue), bananas (14%), salads (13%), vegetable/potato (12%) and other categories. Investment case: 1) market leader with a strong balance sheet; 2) experienced management with ownership; 3) solid and resilient, low-risk business model; and 4) attractively valued (current FCF yield close to 14%; 12-13% FCF yield based on 2007-13 average FCF). Capable and incentivized management, and large growth runway (market share expansion in a fragmented global industry) make this an attractive compounding opportunity for long-term investors.

http://www.valueconferences.com/2013/10/eis13-daniel-gladis/

ÁLVARO GUZMÁN DE LÁZARO MATEOS, BESTINVER ASSET MANAGEMENT

Three ideas "investable on their own": Sustainable ROCE - difficult to copy (barrier to entry); owner-operators good both at operations and capital allocation; little or no debt; value is growing. But these stocks are up a lot and provide less upside potential.

BMW-preferred (Frankfurt: BMW3): Stock under 6x near-term P/FCF, or 4x P/FCF14e. At 10x FCF14e worth 98/share or 60% upside.

DASSAULT AVIATION (Paris: AM): Stock under 8x P/FCF14e, 13% FCF yield 14e. Limited upside (target 1256 or 42% upside @15x15e).

SCHINDLER HOLDING (Zurich: SCHN): Trades at 13x P/FCF14e and under 11x 2015e. Target 177/share, or 40% upside (17x FCF15e)

Six ideas "to be judged as a basket:" Share prices are down a lot (SOL an exception), stocks look cheap and have a lot of upside potential, and have owner-operators at the helm (TESCO a question mark). But these stocks generally possess either no greatness or provide no comfort (due to debt) to investors. Investing in these stocks is largely a bet on mean reversion rather than long term value creation.

ACERINOX (Madrid: ACX): Share price is down >60% in 2007-13; big upside potential.

ARCELORMITTAL (Amsterdam: MT): Share price is down >80% versus 2008; big upside potential.

CIR (Milan: CIR): Share price is down >60% in 2007-13; 60-70% upside potential.

ESPRINET (Milan: PRT): Share price is down ~70% in 2007-13; 40-50% upside potential assuming Italian operations normalize at an EBIT 40% lower than the 2008 peak. Very conservative assumption as they remain leaders and the market will recover sooner or later. A mid-way recovery of Italian EBIT to 2008 levels would increase the upside to 100%.

SOL (Milan: SOL): 80% upside potential applying peers Air Liquide/Linde's multiples, which may never be attained except in an acquisition.

TESCO (London: TSCO): ~30% share price fall in last five years; 40-50% upside potential.

http://www.valueconferences.com/2013/10/eis13-alvaro-guzman-de-lazaro-mateos/

GREGORY HERR, FIRST PACIFIC ADVISORS, AGGREKO (LONDON: AGK)

Recent share price decline, due to power projects segment customer transition and emerging markets growth concerns, leaves the equity at an estimated 40% discount to intrinsic value. #1 global provider of temporary power and temperature control equipment, a high-quality business capable of maintaining significant competitive advantages. Markets are underpinned by long-term structural growth. Proven resilience through challenging economic times. Track record of continued operating efficiency gains. Returns on capital employed of 20%+ on normalized margins. Modest financial leverage with strong free cash flow generation profile (8% recent FCF yield). Prudent capital allocation and clear shareholder value orientation.

http://www.valueconferences.com/2013/10/eis13-gregory-herr/

DAVID MARCUS, EVERMORE GLOBAL ADVISORS

European macroeconomic and sovereign problems have created compelling stressed and distressed investment opportunities across the region due to: 1) lending activity remains largely frozen across Europe, forcing equity and debt holders to sell at depressed prices; 2) bank deleveraging has added to the already growing supply of sellers; 3) the European crisis has allowed select, well-managed companies trading at depressed valuations to right-size their operations in ways they may never have been able to previously accomplish (e.g., forcing unions to make major concessions); 4) Strategic changes (e.g., spinoffs, breakups, consolidations, restructurings, new management teams) are underway across the region. Despite recent run-up, Marcus would commit “new money” to the following of his existing European holdings: **BOLLORE (Paris: BOL), OPAP (Athens: OPAP), SEVAN DRILLING (Oslo: SEVDR), VIVENDI (Paris: VIV)**. **CIE D'ENTREPRISES CFE (Brussels: CFEB)** is worth a look following recent developments involving Ackermans & van Haaren (Brussels: ACKB), another one of Marcus’ existing holdings.

http://www.valueconferences.com/2013/10/eis13-david-marcus/

MAX OTTE, IFVE INSTITUT FÜR VERMÖGENSENTWICKLUNG

There are still good bargains in Europe, but much more difficult to find than last year. Investment ideas that Otte considers still worth a look include (in alphabetical order): **BANCO ESPIRITO SANTO (Lisbon: BES), BANCO POPOLARE (Milan: BP),** online-based banks **BOURSORAMA (Paris: BRS) and COMDIRECT BANK (Frankfurt: COM),** Buffett-like compounder **FUCHS PETROLUB (Frankfurt: FPE), K+S (Frankfurt: SDF), NEOPOST (Paris: NEO), SALZGITTER (Frankfurt: SZG), STATOIL (Oslo: STL), TELEFONICA (Madrid: TEF) and TOTAL (Paris: FP).**

http://www.valueconferences.com/2013/10/eis13-max-otte/

CHRISTOPHER ROSSBACH, J. STERN & CO., MTU AERO ENGINES (FRANKFURT: MTX)

Largest independent Tier-1 civil aero engine component manufacturer and the largest independent player in aero engine maintenance, repair and overhaul (MRO) services. "Razor and razor blade" business model: growing installed base of new civil aero engines and nearly 60% of sales in aftermarket – split 40% MRO services and 20% very high margin engine spare parts. Positioned in the sweet spot of the recovery in civil aerospace spending with little exposure to declining military budgets in comparison to many peers. A recent profit warning (related to military PW2000 engine spares) represent a buying opportunity as the growth opportunity in the next generation of civil engines remains intact. "Offers 25-30% upside" and "can compound earnings and cash flow long-term at 8-10% p.a. with allowance for cyclicality." (2013E P/E: 14x)

http://www.valueconferences.com/2013/10/eis13-christopher-rossbach/

THOMAS A. RUSSO, GARDNER, RUSSO & GARDNER

Deeply invested in Europe with about 70% of investors' funds in European-based companies including Philip Morris International. Continued allure of European-based branded consumer products manufacturers with global reach and extraordinary management. Value of long-term perspectives and properly-selected, family-controlled companies in a world increasingly characterized by short-termism. Currency developments have taken on more significance over the past year and the rise of interest rates is changing investors' opportunity costs. Major European holdings remain: **NESTLE (Zurich: NESN), PHILIP MORRIS INTERNATIONAL (PM), RICHEMONT (Zurich: CFR)** and the beer/spirits companies **DIAGEO (London: DGE), HEINEKEN HOLDING (Amsterdam: HEIO), SABMILLER (London: SAB)** and **PERNOD RICARD (Paris: RI**).

http://www.valueconferences.com/2013/10/eis13-tom-russo/

REINER SACHS, SHAREHOLDER VALUE MANAGEMENT, HARGREAVES SERVICES (LONDON: HSP)

Misunderstood, coal-related company based in the UK. While the company also produces coal (30% of group EBIT), nearly 60% of group EBIT derives from specialty coal distribution (UK domestic heating, briquettes used for barbeque, cement), where it does not take price risk. Hargreaves has effectively been able to become the dominant UK specialty coal distributor in an increasingly weak competitive field allowing it to consistently gain market share and generate extraordinary profits. CEO has skin in the game with 9% equity ownership (bulk of personal net wealth) and is an excellent operator and capital allocator. Recent bankruptcies of several UK coal producers have allowed Hargreaves to cherry-pick cheap assets. Raised capital in April 2013 and acquired two high quality mining assets on the cheap. Trades at FCF/EV2014 of >15% or FCF/market cap 20%.

http://www.valueconferences.com/2013/10/eis13-reiner-sachs/

FLORIAN SCHUHBAUER, CIECH (WARSAW: CIE)

Polish government plans to sell out of 300 companies. Ciech is one of them. Government has 39% stake. This should facilitate change and operational improvements in these companies. Ciech is the #2 soda ash producer in Europe and sole producer in Poland and Romania. Soda ash is a chemical primarily used in the glass, detergent and chemicals industries. Soda ash market attractive due to high entry barriers (capex and environmental regulations), as well as its prospects for growth. No capacity expansions of competitors expected in Central Europe but likely capacity reduction by competitors in South Europe and capacity expansion in Turkey (little impact on Ciech core markets due to logistical barriers). Value creation potential due to 1) disposal of non-core activities and focus on high margin soda segment; 2) cost savings program initiated for soda segment and 3) reduction of capex (current investment program fully executed by 2016/17). CEO has strong track record of turning around chemical businesses in Poland and has built up good reputation. Trades at 6x 2014E adjusted EBITDA with significant EBITDA improvement potential.

http://www.valueconferences.com/2013/10/eis13-florian-schuhbauer/

Guy Spier, Aquamarine Capital

Guy provides an update on the European economic and investment environment. Low car sales volumes include an embedded opportunity, as a rebound should come over time and could benefit European automakers. **Fiat (Milan: F)** has excellent management and the asset base that could allow it to rise to the ranks of top-tier global automakers. European telecoms are in too tough a sector to result in a high-conviction thesis despite the low valuations. European banks are also a difficult investment opportunity to assess.

http://www.valueconferences.com/2013/10/eis13-guy-spier/

Amit Wadhwaney, Third Avenue Management

"One of the most intriguing opportunities unfolding this year so far: European telecoms." Significant value destruction in major European telecoms over the last five years. However, an inflection point may await as there is much pushing this sector towards a better place, with the recognition of the scale of the problems that face the EU being a first step. Intra-market consolidation has begun to happen and regulators don't seem opposed (e.g. Ireland, Germany, perhaps Italy). Inter-market consolidation is also becoming a possibility. Moreover, fiber-in-the-ground developments hold the promise of contributing to improved profitability dynamics. Specific ideas to profit from the European telecom opportunity:

HUTCHISON WHAMPOA (Hong Kong: 13): Ironically, this Asian-listed conglomerate is now more than 50% "European" as of the end of 2012, with significant exposure to select European telecom assets (Ireland, Austria). NAV estimates for the company range from HK$100-145 per share (recent price HK$98), attributing zero to negative value for Hutchison's European telecom operations. The latter could become a significant "positive" net asset given the regulatory revamp of the Euro telecom industry. The company is also very well capitalized and can withstand all sorts of difficulties in the interim - an advantage relative to European telecom businesses, many of which are highly leveraged.

NETIA (Warsaw: NET): Fiber assets become particularly valuable in a world where mobile-only telecoms seek to combine with fiber optic capacity owners in order to limit churn by offering triple and quadruple communications offerings. Netia has the second-largest fiber optic network in Poland with reach into rural markets as well (also attractive for cable companies that are weak in rural). Even without the M&A context, Netia is undervalued on a stand-alone basis trading at 3.6x trailing EBITDA.

http://www.valueconferences.com/2013/10/eis13-amit-wadhwaney/