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Selected Session Highlights from European Investing Summit 2016

Note: The following idea snapshots have been provided by the respective instructors or compiled by The Manual of Ideas using information provided by the instructors. The following is provided for educational purposes only and does not constitute a recommendation to buy or sell any security.

Daniel Gladiš, Chief Executive Officer, Vltava Fund

ITV (London: ITV) is a producer and broadcaster operating the largest commercial family of channels in the UK. ITV is also the largest production company in the UK, with significant operations in the U.S. and several European countries. ITV has a strong and underlevered balance sheet, high returns on invested capital, is highly cash-generative and has strong growth opportunities. Six years into its transformation plan, the business model is more balanced than ever. Well-managed and shareholder-oriented, ITV trades in the post-Brexit world at low multiples both relative to its own past and to its peers. At a P/E of 11x, FCF yield of 8%, dividend yield of 4%, and net debt to EBITDA of 0.7x, the stock represents a combination of a quality company and a low price.

http://www.valueconferences.com/2016/10/eis16-daniel-gladis/

Florian Schuhbauer, Managing Partner, Active Ownership Capital

STADA ARZNEIMITTEL (Germany: SAZ) is the last major independent generics producer in Western Europe with a growing and highly profitable OTC business. Stada enjoys top three market positions in nearly all countries in which it is present. Over the last ten years, Stada substantially underperformed its peers in all major KPIs and was a prime example of bad corporate governance. With the recent change in governance and the election of a new supervisory board, the retirement of the CEO, and the commitment to upgrade the management team, the company is now in a position to substantially improve its business, earnings, and cash flows. Within three years, the company should increase EBITDA by >50% and operating FCF by >100%.

http://www.valueconferences.com/2016/10/eis16-florian-schuhbauer/

Steven Wood, Portfolio Manager, GreenWood Investors

EXOR (Milan: EXO) is an Italian holding company that has some parallels to Berkshire Hathaway in the earlier years. Unlike Berkshire today, Exor trades at a discount valuation of 0.8x price to NAV. Meanwhile, the company has powerful drivers, including cheap reinsurance capital, a value-added investor at the helm (John Elkann), less investor competition, exceptional operational management teams, a focus on returns on capital, and a concentrated, contrarian investment approach. Exor derives only 4.4% of revenue from Italy. Key assets are Partner Re, Fiat Chrysler, Ferrari, and CNH.

http://www.valueconferences.com/2016/10/eis16-steven-wood/

Gianluca Ferrari, Portfolio Manager, Shareholder Value Management

JOHN MENZIES (London: MNZS) is a Scotland-based holding company that operates two separate businesses: an aviation business that provides ground handling services to airlines, and a distribution business that distributes magazines and newspapers to UK retailers. After multiple profit warnings, under shareholder pressure, the company has churned its chairman, CEO, and CFO and is now on track to create shareholder value. With a new management team in place, a transformative deal in the works and a likely spinoff, there are multiple catalysts to unlock value. The company trades at roughly 6x EV/EBITDA with double digit free cash flow yields.

http://www.valueconferences.com/2016/10/eis16-gianluca-ferrari/

Matthias Riechert, Portfolio Manager, Polleit & Riechert Investment Management

JUDGES SCIENTIFIC (London: JDG), a small roll-up in the scientific instrument area, is a “young elephant”. It is young enough to enjoy a long runway of growth but mature enough to allow for a confident assessment. Judges possesses many of the elements that make a business great. Matthias therefore believes it is likely that Judges will reinvest free cash flows at high returns on incremental capital through thoughtful and disciplined acquisitions. After a disappointing year, the stock market has become pessimistic and now offers the company at ~14x 2016E FCF (owner earnings). This gives investors a chance to invest cheaply into a company that can significantly grow FCF for a long time, with low capex requirements and high returns on invested capital.

http://www.valueconferences.com/2016/10/eis16-matthias-riechert/

David Marcus, Chief Investment Officer, Evermore Global Advisors

BOLLORÉ (Paris: BOL), founded in 1822, is a conglomerate based in France, involved in various businesses: transportation and logistics businesses in Africa, Europe, and Asia; port concessions in Africa; batteries for electric cars, etc. The company has controlling stakes in media assets (Vivendi and Havas) and other investments in listed companies. The company has an aggressive value creator at the helm in chairman and CEO Vincent Bolloré who has a track record of creating substantial value for shareholders. Simplification of the company’s complicated structure creates potential upside, as Bolloré pursues asset sales, operational restructuring of acquired businesses, stock buybacks, and spinoffs. As of the latest filing, the company has 15.3 million shares in treasury stock (0.5% of total outstanding shares). Once all iterations of circular ownership have been accounted for, the “treasury stock” effect is actually closer to 54%. Elimination of the treasury shares implicit in the crossholdings will be very accretive to Bolloré’s net asset value. Bolloré also offers investors indirect exposure to Africa, as 50+% of NAV is exposed to that continent. The shares trade at 55-64% discount to David’s estimate of intrinsic value.

http://www.valueconferences.com/2016/10/eis16-david-marcus/

Roshan Padamadan, Fund Manager, Luminance Global Fund

INGENICO (France: ING) is one of two companies that dominate the credit card terminals business (the other is VeriFone). A ~20x P/E is relatively cheap given the growth runway and the current low levels of the equity risk premium in the market. Arguably, it should trade closer to market multiples of ~25x P/E for a high-quality business. Even without a re-rating, an ROIC of ~9.5% keeps the compounding engine going.

http://www.valueconferences.com/2016/10/eis16-roshan-padamadan/

Alistair Wittet, Portfolio Manager, Comgest

JERONIMO MARTINS (Portugal: JMT) is a Portuguese retailer that entered Poland in the 1990s. The company has achieved consistent market share gains in Poland and is now the leading retailer in the country, with 20% market share. 45% of the Polish market is still in the hands of independents, providing an opportunity for additional share gains by Jeronimo Martins. The company recently expanded the SKU count to include more fresh food products, similar to SKU expansion by Lidl in Europe. Jeronimo Martins entered Colombia 2013.

BIM (Turkey: BIMAS) was cited by Alistair as a model low-cost discount retailer. While Alistair did not specifically highlight BIM as an investment opportunity, BIM shares trade at a material discount to those of Jeronimo Martins.

http://www.valueconferences.com/2016/10/eis16-alistair-wittet/

Antonio Garufi, Portfolio Manager, Astor Investment

HBM HEALTHCARE INVESTMENTS (Switzerland: HBMN) is a Swiss investment company with a CHF 710 million market cap. It invests globally in healthcare assets, both in public companies (58% of assets) and private companies and funds (14% and 13% of assets, respectively). The healthcare sector is well positioned, underpinned by strong drivers, to deliver strong returns in the coming years. HBM gives an interesting angle to healthcare investing by giving access to a great collection of specialized assets. The company has a great track record of creating value from its private holdings through IPOs or trade sales (50+ transactions since 2004). Its public holdings have been performing well and the current portfolio has a very interesting risk reward profile. HBM is trading at a ~28% discount to NAV (greater than the historical average), although current NAV does not reflect the expected revaluation of private assets (which are mostly booked at cost) and the value potential from public investments (which are marked to market). HBM's portfolio is well diversified among sub-sectors, but focused on high-conviction positions. Moreover, HBM has a friendly shareholder policy as it allocates 5% of resources to dividends and a share buyback program on a yearly basis.

http://www.valueconferences.com/2016/10/eis16-antonio-garufi/

ADAM CROCKER, CHIEF INVESTMENT OFFICER, LOGBOOK INVESTMENTS

COATS GROUP (London: COA) is the long-time dominant player in the global thread industry with an unrivaled global manufacturing and distribution footprint and long-term customer relationships. Coats thread is used in one in five garments sold, and the company generates three times the revenue of its next-largest peer. The business has “fallen through the cracks” due to reorganization of the former parent, pension uncertainty, and other technical factors. Trailing EV/EBIT of less than 7x seems like a modest multiple given the company’s stability, market leadership, and growth potential. Management is increasingly focused on industrial and specialty products, while selling the UK crafts business. Industrial is a steady ~2-3% growth business with improving margins.

http://www.valueconferences.com/2016/10/eis16-adam-crocker/

CHRISTOPHER ROSSBACH, MANAGING PARTNER, J. STERN & CO.

SIKA (Swiss: SIK) is a Swiss-based global leader in sealing, bonding, reinforcing and protecting. The construction division accounts for 79% of sales, the industry division accounts for 21% of sales. In 2015 sales were CHF 5.5 billion and EBIT was CHF 633 million. The market cap is CHF 9 billion. The company has no debt. Sika has several revenue growth opportunities ahead: The company is likely to benefit from accelerating growth in non-residential construction in the U.S. over the next five years. In emerging markets, Sika’s business will be driven by ongoing investment in construction and infrastructure. In China and elsewhere, Sika will be one of the key beneficiaries of the investment boom that has taken place since 2000. Sika’s products are critical for sophisticated construction or refurbishment, including buildings, tunnels, bridges, highways and other infrastructure. It can grow sales at 5-10% a year over the long-term and its earnings at a higher rate. Critically, 80% of the business in Sika’s construction division are related to refurbishment. Its growth potential from the refurbishment of concrete structures in China and elsewhere is enormous. Sika’s share price increased from 800 to 4200 since the early 2000s. The company has significant value generation potential from here. Given its small size relative to its addressable market it could double over the next five to ten years. The company is subject to a hostile takeover of the founding family’s 16% economic/51% voting stake by St. Gobain. The outcome will significantly impact the prospects and value of the company. Long-term shareholders are actively involved in seeking to preserve shareholder value. However, investors must be aware of the significant risks attached to the situation.

http://www.valueconferences.com/2016/10/eis16-christopher-rossbach/

JEAN-PASCAL ROLANDEZ, FUND MANAGER, THE L.T. FUNDS

PROSEGUR (Spain: PSG) is a worldwide security company, focused on the Latin American and Iberian markets. In 14 of the 18 markets where it operates it is the market share leader. It has experienced an 8% sales CAGR over the last ten years. Sales should exceed EUR 4 billion in 2017. Prosegur is well-managed: Despite operating in uneven economic environments (Latin America represents 78% of EBIT), it has displayed remarkable resilience and constant development thanks to tight control and financial discipline by the founding Gut family. As both Latin America and Iberia are recovering economically, EBIDTA margin should progress from the current 11% level. Importantly, the group now focuses resources on higher value-added products and services such as alarms and security systems, as the cash-in-transit division matures. At a discount to peers and on less than 9x 2017 expected EBITDA-to-EV basis, Prosegur offers a good growth-at-a-reasonable-price investment case for long-term investors.

http://www.valueconferences.com/2016/10/eis16-jean-pascal-rolandez/

Massimo Fuggetta, Director, Bayes Investments

LA DORIA (Milan: LD) is the largest Italian producer of private label canned food, principally tomato cans, but also baked beans, pulses, fruit juices and ready-made sauces and soups. Italy represents about 20% of sales, with 70% going to Europe, and Northern Europe in particular, with the UK being the most important country. The company is facing a cyclical downturn, after two years, 2014 and especially 2015 of exceptional results. This is not a structural change, leading to a permanent reduction in value, but a temporary inflection – nothing the company has not seen before – leaving it intact on a solid growth path, not as strong as the 2014-15 acceleration, but one that will continue to produce a healthy dose of compounding earnings over the years.

http://www.valueconferences.com/2016/10/eis16-massimo-fuggetta/

Louis d'Arvieu, Fund Manager, Amiral Gestion

EXEL INDUSTRIES (Paris: EXE) is a French niche specialist in the sprayer industry. 45-50% of sales are for agriculture (leader in Europe), 25% for industry, mainly auto, 12% for consumers. The remaining 18% is on beet harvesters. They generate 15+% of pre-tax ROCE over the cycles, including goodwill. Louis believes they should reach 20% on a normalized basis going forward. They execute well, are an innovative company gaining market share, and are optimizing the cost base as often as possible in France despite the challenging legal environment, while keeping a great relationship with the workforce. They excel at capital allocation, and free cash flow generation is solid. Since the IPO in 1997, they have grown from €150 million in sales to €800 million, both internally and externally, but with zero capital increase. They love to buy bankrupt companies and make them profitable. They have good timing; for example, they recently bought ET Works in the U.S. in the agricultural sprayer market after sales decreased 50%. Exel is a family-owned company with strong family involvement, but members of the family are in no way given priority and are expected to begin working elsewhere. Currently, both the agriculture and the beet harvesting businesses are in a downcycle, but even so, the valuation is reasonable at 11x PE with close to 10% free cash flow yield. On a normalized mid-cycle basis, the company trades at 8x PE and 13% free cash flow yield, much too cheap, in Louis' view.

http://www.valueconferences.com/2016/10/eis16-louis-darvieu/

Sébastien Lemonnier, Fund Manager, Mansartis

CTT CORREIOS (Portugal: CTT) is a cheap defensive investment idea. CTT provides postal services. It is not a fashionable business with favorable megatrends, but it is a simple business to understand. The business has robust FCF generation. The historical mail business has been optimized by management and delivers a normalized 10+% FCF yield. The balance sheet is robust, making management's dividend commitment quite secure; the annualized dividend yield was recently in excess of 7%. The balance sheet strength appears to be underappreciated, with significant tangible assets that seem to be overlooked by the market. Management is experienced and disciplined and has received support from a financial investor who owns 8-10% of the shares and has a board presence. The launch of CTT Banco creates a free longer-term option on growth, the headwinds created by the ongoing low interest rate environment notwithstanding. Sebastien estimates the discount to intrinsic value at 25-35%.

http://www.valueconferences.com/2016/10/eis16-sebastien-lemonnier/

Sebastian Hahn and Jeremie Couix, Partners, HC Capital Advisors

AXWAY (Paris: AXW) is a French software company that appears overlooked and disliked by the market. The business has a strong position in a growing market. The thesis benefits from positive operating leverage and a newly appointed management determined to lower costs and drive margin materially above recent levels. As a result, Sebastian and Jeremie believe that the shares offer strong downside protection combined with large upside. They expect an IRR of 20+% through 2020.

Update on **AO JOHANSEN** (Denmark: AOJP) (presented in 2015): The large share buyback that took place at the beginning of 2016 represents a major option for further value creation. Sebastian and Jeremie continue to expect an investment in AO Johansen to generate an IRR of 20+% through 2020.

http://www.valueconferences.com/2016/10/eis16-couix-hahn/

Alejandro Estebaranz, Co-Investment Advisor, True Value Fund

UMANIS (Paris: ALUMS) is an IT services and consulting company focused on sub-segments of business intelligence and big data. Umanis was founded in the 1992 by its current CEO (former director of research at EDF). The company has grown sales from €50 million to €160 million over the last six years and at a rate of 20% annually over fifteen years. The business earns high returns on invested capital and is resistant to crises. Umanis has repurchased ~40% of shares outstanding over the last six years. The founders own 66% of the equity. Organic growth of 5-10% is supplemented with acquisitions made at attractive prices. Industry sales should grow at a rate of close to 10% in the coming years. The company has a strong balance sheet, with debt to EBITDA of 0.5x. The shares are cheap at EV/EBIT of 3.9x, EV/EBITDA of 3.8x, and price to FCF of 5.5x. While the stock trades around €23 per share, Alejandro estimates current value at €50-60 per share and expects value to grow to as much as €75-100 per share over the next three to five years.

NEURONES (Paris: NRO) is an IT consulting firm that operates in three areas: consulting, integration of technological solutions, and outsourcing of information systems. The French IT market is isolated from offshore competition because of language barriers. Neurones has earned returns on capital of 20+% across the cycle. Two-thirds of the growth has been organic (~9% per year), the rest has come from M&A. The company has a great corporate culture, with the lowest employee turnover in the industry. Sales have grown every year since it went public, including during the financial crisis. Despite a sales CAGR of ~15% over the twenty years, Neurones still controls less than 1.5% of the French IT consulting market. The founder owns 65+% of the company and is a Buffett follower. 75% of Neurones' revenue is recurring. The company has little analyst coverage (~€500 million market cap) and trades at 7.5x EV to 2017E EBITDA, 8.5x EV to 2017E EBIT, and 13x cash-adjusted P/E.

http://www.valueconferences.com/2016/10/eis16-alejandro-estebaranz/

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