

## Investment Mistakes: Scratch or Scar?

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Hit songs like *Duo Dinámico*'s "The end of the summer" or *Amaral*'s "Summer Days" warn us of the end of adults and children's preferred season of the year. The former may change the sun and the beer for working clothes and emails, while the latter may leave aside the bicycle and shorts and go back to that uniform that bothers so much when you have your legs full of scratches.

Yet, scratches are not only for children but also for investors. We have suffered our particular scratch this summer with Prosegur Cash. This company, dedicated to cash logistics and cash management, fell 20% in just two days, and you may wonder why.

Well, Prosegur Cash does not only operate in Spain or Brazil among other countries, but also in Argentina since 2001. The financial markets of this country dropped because of the initial victory of Alberto Fernández over the current Argentinian President Mauricio Macri. All this political tension is, unfortunately, very common in Argentina. Prosegur Cash has overcome a "bank freeze" in 2001 and a "dollar clamp" between 2012 and 2015 and has done it with the same management team. In addition, Prosegur Cash is the market leader in a hyperinflationary country with huge growths, which barely holds local currency and that if it is compelled to do so, would invest in renovating the fleet of armoured vans or in buying real estate in prime areas of Buenos Aires. Despite all this, the market has ruled that the Argentinian subsidiary of Prosegur Cash is worth zero. In that case, we think the company has a margin of safety of 50%, but we also have reasons to think that Argentina is worth something more and it would give the company a margin of safety of 80%.

Sometimes scratches disappear with the passing of time, but some others can mark our skin for life, leaving us a scar. In our case, scars are investment mistakes that keep hard lessons inside.

Our last scar has a French surname, but it is an English company responsible, among other things, for printing the currency on behalf of the Bank of England; its name is De La Rue. Moreover, De La Rue has two other business units, one dedicated to the printing of ID documents and another one to the authentication of products. At first sight, all those segments are very relevant for clients (most of the times a State), so they will not trust anyone. First mistake! We overstated the competitive advantage that the company had, as there was more competition than we initially thought, especially when dealing with developing countries. At least it makes sense to think that if the client is a State, it will pay on time. Second mistake! Venezuela was one of its clients and although they wanted to pay, *Mr. Trump's* sanctions prohibited them from doing it and De La Rue had to assume a strong impairment. Well, we may then think that at least while being the United Kingdom in the middle of BREXIT and being De La Rue a British company, it would succeed in all the tenders there. Third mistake! The important British passport tender was won by the French-Dutch company Gemalto. Even though, we could think that the company would be transparent and would know how to explain what has happened and how they face the future. Fourth mistake! Although the investor relations department was very accessible, the managers were

not like that and barely showed up twice a year and without a reference shareholder backing them they roared freely.

Our moral to the story is that we overestimated the quality of the business and therefore the PE multiple that we applied; we also miscalculated the potential loss of relevant tenders and money collection problems and, finally, we underestimated the explosive mixture that involves non-aligned managers and a delicate balance sheet.

“Out of suffering have emerged the strongest souls; the most massive characters are seared with scars.” -Kahlil Gibran

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