Selected Session Highlights from European Investing Summit 2014

Frank Fischer, CIO, Shareholder Value Management

SOFTWARE AG (Germany: SOW): Develops and sells software for mainframes in the Enterprise Transaction Systems (ETS) segment, and middleware and big data solutions in the Business Process Excellence (BPE) segment. While the ETS business serves as cash cow and is structurally declining, BPE has a very high potential to benefit from the transition to a digital economy and the trend towards the “internet of things.” According to Gartner and Forrester research, Software AG offers best in class solutions in the BPE market. In the last few years, the company has been transitioning from the ETS business to BPE and, as a result, overall growth has been rather limited and profits could not grow. Also, the quarterly ups and downs (because of the quarterly reporting process) has weighed on the confidence in management. This will now slowly change as BPE has become the most important segment and will therefore lead to overall growth for the company again. Moreover, the stock has become rather cheap for a software company in such a growth area. With the shares trading at a ~10x P/E (adjusted for purchase price allocation), and at an EV-to maintenance level profitability of 4.5x, the equity is priced as if there would be no growth in the future. Fischer thinks that this is not a realistic assumption and therefore sees limited downside (given the high free cash flow), and significant upside as soon as Software AG is able to improve sales execution.

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Daniel Gladiš, CEO, Vltava Fund

CATLIN (UK: CGL): International specialty property/casualty insurer and reinsurer founded in 1984 and became public in 2004. Managed by Stephen Catlin, who owns 2% of the equity (~$60 million). Gladiš likes the investment proposition due to the following key factors: 1) relatively simple and understandable business; 2) managed by its founder who is capable and incentivized; 3) clearly defined financial goals with long-term progress measured by growth in book value per share (Catlin’s long-term goal is 12-month USD Libor + 10%); 4) strong historical track record, both operationally and in terms of value creation for shareholders (during 2004-13 Catlin delivered an average return on net tangible assets of 16.8%, average ROE of 13.2%, and paid $1.2 billion in dividends); and 5) the equity is attractively valued at a P/E of 8x, P/tangible book of 1.1x and P/book of 0.9x (dividend yield: 6%). Gladiš thinks the business could pay out $2.5 billion in dividends over the next 10 years, relative to recent market value of ~$2.9 billion. Additional positives: low correlation with the economic cycle and leveraged to higher interest rates.

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David Marcus, CIO, Evermore Global Advisors

European macroeconomic and sovereign problems have created compelling stressed and distressed investment opportunities for the following reasons: 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 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; and 5) potential boost to valuations from a European recovery. Three specific ideas:

BOLLORE (France: BOL): Bolloré is a French conglomerate controlled by Vincent Bolloré that has a wide array of well-managed assets in Europe, Africa and Asia. These assets include batteries for electric cars, manufacture of shrink wrap films, railway transportation, port and logistics services, stakes in other undervalued companies (e.g., Vivendi SA), etc. They have compounded their NAV at close to 20% for over 20 years. Marcus views this holding as an excellent way to "sneak" into emerging markets like Africa, where the company owns valuable ports, logistics infrastructure, and other assets. CEO Vincent Bolloré is continuously acquiring synergistic assets, selling non-performing assets and restructuring operations, all of which has created substantial value for shareholders. Based on a sum-of-the-parts valuation, Marcus estimates intrinsic value at €540-925 per share.

VIVENDI (France: VIV): Vivendi was viewed as a value trap for over ten years, but Marcus became interested in 2012 when Vincent Bolloré took a 5% stake in Vivendi and went on their supervisory board (he was recently appointed chairman). Marcus views Bolloré as the consummate catalyst for value creation, as he has a record of restructuring and growing multi-national businesses over the past three decades. Vivendi is selling its telecom assets for cash and securities in the new businesses, selling non-core assets, and will transition from over ~€13 billion in net debt to a net cash position. It has a 5% dividend yield and Marcus expects a special dividend to be paid by early next year as management executes the restructuring plan. Based on a sum-of-the-parts valuation, Marcus estimates intrinsic value at €28-31 per share with a timeframe of 12-18 months.

ING (Netherlands: INGA): This large Dutch-based banking conglomerate was bailed out by the Dutch government during the financial crisis. As part of the bailout, ING has sold its Asian assets, spun off its U.S. business (Voya Financial, which Marcus also owns), and spun off its European insurance and annuity business (NN Group, which Marcus also owns). ING will pay the government back the remaining bailout funds it was lent by year end. Marcus thinks as ING transforms itself back to a traditional Dutch commercial and investment bank, the market will continue to revalue it to trade more in line with peer banks. Based on a sum-of-the-parts valuation, Marcus estimates intrinsic value at €14.50-16.50 per share with a timeframe of 6-12 months.

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FLORIAN SCHUHBAUER, PORTFOLIO MANAGER, ACTIVE OWNERSHIP FUND

PSI (Germany: PSAN): Provides control system software to optimize energy efficiency, work efficiency and materials efficiency for energy utilities and industry customers. PSI had a major profit warning in 2013 and reduced guidance for the next years. It is in the midst of a transformation of the model – switch from writing of code for customers to creating software that can be customized –offers margin upside from 6% to 15%+ EBIT margin long-term (R&D costs are expensed and 11% of sales). Entry barriers due to complexity of covered processes (15,000 man years of development) and integrated customer base with high switching costs. Attractive market position: metals/steel (global #1), gas/oil and electrical energy (regional #1), other segments (# 4/5 regional player). PSI benefits from structural trends: 1) automation and optimization of energy, labor and value-chain efficiency; 2) investments into the German grid; 3) increasing complexity of electricity networks due to renewable energy. Good CEO who shares the vision for the company. High strategic value for potential buyers.

KONTRON (Germany: KBC): Schuhbauer likes Kontron even more now than in 2012, when he first presented KBC at European Value Investing Summit 2012 (at €3.39 per share). This is due to operational progress and the share price development since then (only ~35% increase). What has happened since 2012: Management and supervisory board completely changed and strongly improved. Restructuring measures 70% done (closure of facilities completely done). New organization structure focusing on verticals. Product portfolio substantially streamlined. Reduction of suppliers from 1,900 to less than 500. Non-core business (e.g. Russia) sold. Engineering and R&D centralized. First results can already be seen – the company is on track to save €40m p.a. by 2016.

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SIMON DENISON-SMITH, INVESTMENT MANAGER, METROPOLIS CAPITAL LIMITED

ADMIRAL (UK: ADM): Leading provider of car insurance in the UK, with growing businesses in Spain, France, Italy and the U.S. A pioneer of price comparison websites for selling car insurance. The equity is mispriced due to: 1) U.K. market is at the bottom of the insurance cycle (Admiral has deliberately slowed its growth while pricing is low – showing capital discipline); 2) breaking into overseas markets is costing Admiral 5-10% of profits (long-term payback which the market struggles to value); 3) low interest rate environment has reduced returns (normalized interest rates could increase profit by up to 25%); and 4) regulatory headwinds with competition investigations (largely resolved now). Denison-Smith estimates 25% margin of safety on the share price of ~£13 based on: measuring the value of the U.K. business with no further growth in market share, stripping out the losses of the international business and normalizing profit for long-run interest. What further enhances the upside is that Admiral has a superb founder management team and engaged high shareholdings with all staff members, which results in the lowest cost offering in the U.K. market. So, there is room to grow market share by 25-40% and this growth should start to happen when prices recover. Lastly, success overseas (particularly in the U.S. where there is no price comparison site model) is a very low-cost call option currently. In the meantime, investors can pick up a dividend yield of ~7.5%.

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ROBERT LEITZ, PORTFOLIO MANAGER, IOLITE PARTNERS

PERION NETWORK (Nasdaq: PERI; Israel: PERI): 4th-largest internet search provider in the U.S., powering 1 billion searches monthly. At the core, Perion is a distributor of search engine traffic and represents 10% of Bing searches. Merged with larger ClientConnect business from private Israeli company Conduit (same business model) in early 2014 (Conduit shareholders received 81% in PerionNetwork). Recent controversy related to “browser hijacks” has led to share price declines of Babylon, Blucora and Perion. Leitz thinks Perion is being unjustifiably punished and is a misunderstood company in a challenging market that offers solid downside protection due to locked-in toolbar cash flows in 2015-2017: $100-300 million; cash due from upfront traffic acquisition costs: $250 million; and the value of its own application software portfolio. In terms of upside potential, Leitz sees an opportunity to triple the original investment over the next three years based on: 1) the toolbar business might continue to generate $100m+ cash flow per annum; 2) a media brokerage platform would be a much better, wide moat cash generator; 3) Perion has $200 million (incl. leverage) available for acquisitions; 4) business savvy and growth-oriented management team; and 5) former Conduit shareholders’ stake is large enough to incentivize further growth/commitment.

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HENRIK ANDERSSON, FUND MANAGER, DIDNER & GERGE

AUTOLIV (Sweden: ALIV): provides car safety products, including airbags (65% of 2013 revenue), seatbelts (31%), and “active” safety (4%; mostly refers to safety-focused car electronics). Mr. Market still views the company as a price-taking supplier into a tough customer base. However, has evolved into an enviable position to be in “the business of saving lives” and provide products that focus on end-customer priorities while helping auto makers set themselves apart from their competition. The shares are set up for a total annual return of at least 10%, based on a sustainable free cash flow yield of 7% (on a net cash balance sheet) and a long term growth rate of 3%. The growth rate may be higher given the secular tailwinds for Autoliv in a nascent market with currently less than 2% of a car value relating to safety products. Tailwinds include: 1) increasing car safety regulations; 2) active safety features moving from add-on to standard; and 3) favorable emerging markets dynamics (safety value per car: China: ~$220 vs. US: ~$420). In addition, the company’s operating margin may expand given that its active safety business is still a drag on profit margins and currently high raw materials prices may reverse. Management has started a share buy-back program in the fourth quarter of 2013.

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THERON DE RIS, PORTFOLIO MANAGER, ESCHLER RECOVERY FUND

DOLPHIN CAPITAL INVESTORS (UK: DCI): finances and constructs leisure resorts, mainly in Greece, the Dominican Republic and Panama. It partners with top hotel operators (Aman, Ritz, Oberoi) and architects to create high-end luxury properties and then constructs hotel-branded villas to sell to ultra-high-net-worth individuals at a very high margin. The equity is mispriced due to: 1) a lack of confidence that the NAV has troughed and that the value can be realized (NAV still mostly based on land with only one operating asset, and it has been falling for seven years with few recent transactions on which to base the valuation); 2) lack of faith in management's ability to get financing for advanced projects such as Amankea, Pearl Island and Kilada Hills; and 3) Greek political issues. Having spoken with the independent property valuation agent, De Ris thinks that a conservative approach is being used and that the NAV is a good indication of property value. In the absence of comparable transactions, haircuts are given to raw land with revaluation only occurring once building permits are obtained and construction commenced. Also, Greek land prices have fallen 45% since the crisis. De Ris also derives comfort from the fact that partners such as Colony Capital have lent EUR 40 million against the one operating asset, Amanzoe, and that top shareholders such as Fortress who have backed DCI for many years, keep close tabs on each project. Lastly, DCI has exited a number of assets averaging a 1.7x multiple on cost and often at a premium to NAV. De Ris expects the shares to trade at a more normal 20-30% discount to what will likely be a materially higher NAV over time. An important positive is that there is alignment of interests (managers own 10% of DCI shares and are "true believers" (having paid EUR >90 million to buy 66.5 million DCI shares at 110p in spring of 2008, much of it borrowed against future management fees; they still owe EUR 21 million, having paid annual debt amortization since '08). Another positive is that Third Point is largest owner with 20%.

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

HENKEL – ordinary shares (Germany: HEN): leading German consumer goods and adhesives company, with revenues equally divided between the two businesses. It is the world leader in adhesives and a European leader in home and personal care. Henkel's share price does not reflect its significant sales, earnings and cash potential. The equity is mispriced as the market has not adequately reflected the opportunity for the adhesives business to substantially increase its earnings with a recovering global economy and increased use of adhesives in cars, buildings and general industry. The European HPC business has moderate growth prospects but significant restructuring potential. Rossbach thinks Henkel's ordinary shares, which trade at a 10% discount to the preference shares, are worth €100. The market puts the discount on the ordinary shares because they are less liquid (held in large part by the Henkel family), a fact which should not bother long term investors.

SWATCH - registered shares (Switzerland: UHRN): world's largest watch maker with a 25% market share. Its brands range from Breguet, Blancpain and Omega, to Tissot and Longines, and to Calvin Klein and Swatch. 50% of watches sold are in Asia, of which 37% in China. Tissot and Longines are the two top watch brands in China. Nicolas Hayek, the founder of Swatch, was instrumental in turning watches from utilitarian time keeping devices into aspirational objects and jewelry. In particular, a watch is the only jewelry most men will ever wear. Swatch has many years of growth from volume and from pricing. Europe is fully penetrated so it is about pricing, but the U.S. has a long way to go and China—despite its share of Swatch's sales—has only gotten started. Swatch's share price is depressed because of concerns about China and the Apple Watch, which has yet to be sold and will have an impact; but it is a different product. Swatch is worth CHF140 as its sales and earnings grow, demand in China and other emerging markets comes back, and the Apple Watch turns out to be a good product with limited appeal. On a 2015 estimated P/E of 13x none of that is priced in. Rossbach makes the case for the registered shares, which are 8% cheaper than bearer shares.

WEIR (UK: WEIR): leading supplier of industrial pumps and valves for the global mining, oil & gas and power markets, with 30%+ share in its individual segments and 65% of sales from aftermarket. Weir's share price does not reflect the strength of its franchise, potential for structural growth (as demand for non-conventional oil and gas exploration expands from the U.S. to other markets), resilience of its recurring revenues from aftermarket, and pricing power as its pumps are critical for production, yet are a fraction of total costs. Given that Weir's P/E multiple is moderate for a company of such quality and is in line with its ten year average, Rossbach thinks Weir has material upside to £30+ per share.

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Sebastien Lemonnier, Fund Manager, Mansartis

IMERYS (France: NK): global leader in mineral processing and owner of quarries with 20+ years of reserves on average (barrier to entry). Four main product lines: 1) functional additives (e.g. added to customer's products to achieve shock absorption and lightness); 2) mineral components (e.g. used for product whiteness and strength); 3) process enablers (e.g. refractories for industrial equipment); and 4) finished products (e.g. clay tiles for housing). Strong market position with #1 or #2 share in each niche. No end market represents more than 15% of sales. The shares are mispriced as the market considers it a cyclical company (however, 40% of sales are generated in industries like food and beverage, cosmetics, and similar), and ignores large structural growth opportunities (e.g. propane business benefiting from shale gas growth, ceramic minerals to substitute some steel parts within cars, etc.). The consensus is also too cautious on future margins, which should benefit from pricing power and higher margin growth areas. Finally, the market still views management as too cautious in terms of use of cash. Lemonnier thinks management is disciplined and well incentivized. Imerys often gets lumped with construction companies, but should be compared to industrial/specialty chemicals companies; it offers an attractive risk/reward with limited downside and 30-35% upside in 2-3 years.

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Eric Boroian, Portfolio Manager, Focus Asset Managers

ISS (Denmark: ISS): provides facility services, including cleaning, catering, property services (building maintenance, landscaping), support services (reception services, internal mail handling, office logistics), security (manned guarding, access control, patrolling, key card), and facility management (change management and consulting). The shares are mispriced as the market is doubtful of the company's growth due to disappointing recent results, driven by weak Western Europe and 'non portfolio' work, which is higher margin but cyclical. This disappointment has caused the price to decline which may be worsened by the fact that it's a recent private equity led IPO. Boroian however thinks the equity is undervalued on both absolute and relative terms. It trades at a 20% discount to lower quality peers and a 30-40% discount to higher quality peers. His base case assumes a reversion to the mean in growth (to 4% annually over the next 5 years), with margins improving by 10bps annually, and a valuation in line with lower quality peers (to be conservative). When discounting that at 10% and taking into account dividends, this would still imply 50% upside. On a bear case scenario, growth would stay low at 2%, margins remain flat, and the company would be at the low end of the historical multiple for peers, which would then imply 25% downside. This means there is a reward to risk ratio of about 2 to 1, which Boroian finds quite attractive.

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Alistair Wittet, Portfolio Manager, Comgest

INDITEX (Spain: ITX): world's largest clothing retailer specializing in "fast fashion" for the young. It operates under eight brands, the largest of which is Zara. The equity is mispriced as the market underestimates the long term potential of the business. Present in 86 markets, the company has less than 3% share in all but its two home markets where its share is closer to 15%. The stock trades on a current P/E multiple of 24x, but given Wittet's belief that the business can quadruple in size, he sees scope for the equity to double over time (assuming a 13-14x P/E multiple at that stage).

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Jean-Pascal Rolandez, Fund Manager, The L.T. Funds

VALEO (FRANCE: FR): One of the world's leading car component manufacturers with key positions in its 14 segments (#1 or #2). Main competitors are Japanese company Denso and German company Bosch. The equity cheap versus the sector and intrinsically, as the market perceives it only as a cyclical company, but fails to take into account the "kondratevian" growth opportunities represented by favorable industry trends in: 1) fuel efficiency; 2) car electronics; and 3) emerging markets. Other positives are the management team (industrial and financial savvy), opportunity for operating margin improvement (currently at 7%), and modest leverage (net gearing <20%). Despite the share price appreciation of the last few years, Rolandez thinks the equity remains undervalued at an EV/EBITDA ratio of 4.8x (2015e), especially if the European car market (~50% of Valeo revenue) starts to recover. While the company is still perceived as "too French," Rolandez actually likes the management and points to 30% of revenue being tied to German car makers (only 17% to French companies).

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Sergey Ezimov, Principal, Wermuth Asset Management

Stock-picking is still key in Russia, even though the market is cheap overall, including against other BRIC countries: RTS Index has a trailing P/E of 5x vs. 10x for Hang Seng (as a proxy for China), 16x for Bovespa (Brazil) and 19x for the SENSEX (India). The Russian RTS Index currently trades not only at the highest discount to BRICs (~70% discount), but also to its own historical median P/E multiple of the past ten years (~33% discount). The Russian equities could be divided into: 1) state-owned/controlled: a) well managed, e.g. Sberbank; b) poorly managed, e.g. Gazprom; and 2) privately owned: a) "value" names, e.g. Bashneft; b) "expensive" names, e.g. Magnit. Two ideas:

SBERBANK (UK International: SBER; Russia: SBER): leading Russian commercial bank with total assets of over $550 billion. Sberbank may be considered as a cheap proxy of the Russian equity market and the Russian economy in general. Sberbank has one of the best corporate governance and focus on shareholder's returns among all state-owned enterprises in Russia. Ezimov mainly relies on reproduction value and earnings power value to estimate the company's intrinsic value, with the reproduction value estimated at ~$64 billion (~70% upside). This is mainly explained by the enormous franchise value of Sberbank being the largest financial institution in Russia. The equity is mispriced mainly due to disgrace of Russia as a broad investment theme by foreign investors.

BASHNEFT (Russia: BANE): seventh largest oil company by production in Russia, Bashneft is a vertically integrated company with modern downstream facilities. Until recently, it has been privately owned. Bashneft has one of the best management teams in the industry which delivered $5 billion total cash returns to shareholders (dividends and buy backs) over the last five years compared to a current market cap of $4.3 billion. The company's share price has fallen by ~60% YTD, roughly double that of the RTS Index decline, in the wake of government investigations against the chairman of Sistema, which effectively owns 74% of Bashneft. However, Bashneft and its minority shareholders are not parties to the investigation and Bashneft's operations are unaffected. Based on earnings power value, Ezimov estimates Bashneft's intrinsic value to be ~$15 billion.

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