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INOCAP Gestion

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Hosted by MOI Global**

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Past performance is no indication of future performance.

The benchmark index is given for information only.

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Investment process

Bottom-up driven stock-picking approach to build strong investment conviction

Disciplined investment process based on 5 fundamental criteria

- | World leaders in niche market
- | Solid edge & barriers to entry – differentiating factors driven profit growth & value creation
- | Operational excellence (margins, FCF and ROCE)
- | Family / Entrepreneurial ownership

Differentiated investment process principles

- | A committed on the ground approach
- | Understanding what Mr Market says : Peer positionings & Divergente opinion
- | Quest for : Profit growth acceleration & Divergence with Mr Market top-down approach

QUADRIGE EUROPE Midcaps – I share

Historical performance

	Performance YTD	Performance 2021	Performance 2020	Performance 2019	Last years cumulative performance	Performance since 31/12/2018
I share	-23,49%	+22,03%	+12,90%	+32,08%	+19,20%	+39,22%
Index	-26,21%	+23,35%	+5,45%	+28,21%	+4,61%	+23,06%
Quantalys category	-28,41%	+21,08%	+11,14%	+24,00%	+4,26%	+19,53%

Performances as of Sept. 27th 2022 - source INOCAP Gestion – Bloomberg - Quantalys
 Past performance is no indication of future performance

Learnt lessons over the last 19 years

- | Humility & rigorous work are your best allies
- | Focus on less to make sure you do it well
- | Reject complacency
- | Fall in love only with your wife and never with any company & management
- | Fundamental conviction is key but investment timing should also not be neglected
- | Never blame anybody from your mistake but learn from them
- | Favor a common sense approach especially when very difficult environment
- | Spend time to understand those who think contrary to you
- | Don't read information but look for the « right » information
- | Track investor's darling over the cycle and be patient to buy it at the right time

Last 5 edition investment ideas

European Investing Summit 2017 & 2021



European Investing Summit 2018



European Investing Summit 2019



European Investing Summit 2020



European Investing Summit 2022...

European Investing Summit 2022...

Favor a common sense approach especially when very difficult environment

European Sovereignty requirements :



Overlooked defensive quality names :



Dermapharm AG

European Investing Summit 2022 | Investment idea



Leading international systems provider for defense technology & renowned supplier to the global automotive industry

Founded 1889	Sales 2021 €5,7bn	Employees c. 24 000
Market cap. €7bn	Operating margin 2021 10,5%	Client countries 139
Free float 100%	Order backlog Q2 2022 €15bn	Net cash 2021 c. €280m



Rheinmetall | Investment idea

A new paradigm : From low growth & cyclical top line to High sustainable growth and accelerating FCF

The war in Ukraine reveals weaknesses we have in our ability to protect our sovereignty
 A change in the German Constitution : A special €100bn fund | Defense spending to be at least 2% of the Gdp
 From T/O organic CARG +2,1% 2012-21 to an average > +14% top line growth the next 3 years

Overlooked drivers on the operating leverage and FCF generation

Till last March, the defence activities were running on a single one shift	=>	Operating leverage opportunities
An efficient culture born from the past years automotive business restructuring		
Germany needs significant built up of its ammunition inventory	=>	Relevant driver in the margin mix
A change in the relationship with Government to benefit to higher pre-payments	=>	Increasing structural FCF

To become the #1 European army, Germany may need a stronger German champion

RHM is today an 100% free float company
 Evolving German political support with the company
 Based on today assumptions, RHM should be > €1bn net cash by 2025 (market cap €7bn today)
 M&A consideration

A committed, entrepreneurial and pragmatic company

Becoming an attractive employer in Germany
 Insider dealings of which last Sept 16th
 Dividend pay-out increase and not excluded share buy back

May come some change from the ESG perception ...

	Source Bloomberg	
	av. 2012-2021	av. 2022-2025
T/O CAGR org growth	2,10%	14,50%
EBITA margin	6,20%	12%
ROCE	10,30%	20,40%
EV / EBIT	9x	7,9x!

European Investing Summit 2022 | Investment idea



Leading producer of glass packaging for beverage products

Founded 1827	Sales 2021 €2,7bn	Employees c. 10 000
Market cap. €2,8bn	Operating margin 2021 16,6%	Annual production of bottles 16bn
Free float 100%	Clients 10 000	Net cash 2021 c. €280m



Verallia | Investment idea

An overlooked story since its IPO

Selling private equity, Apollo, from October 2019 until March 2021 | Trading 15% below its IPO almost 3 years ago
A discounted quality perception vis à vis its Spanish peer, Vidrala | 15-20% historical discount whereas higher ROCE!
Former CEO sold some shares (€1m) by October 2021 and moved as group Chairman

Energy intensive business highly exposed to gas : cost inflation & rationalization constraint risks
Revealed late to react on pricing by 2021
Lot of hedge funds interest in the industry with so far limited discrimination across companies

Overlooked quality fundamentals

By nature a relative defensive – small ticket items – resilient business
A critical supplier for the food & beverage industry (with requested continuous activities like during Covid)
A local and oligopolistic market where the top 4 players combined up to around 65-70% market share
An historical price disciplined industry
Diversified customer base, especially compared with its peer Vidrala
A high FCF generative business over the cycle
An historical well balanced offer / demand balance

A 10% FCF yield company

which offers

Resilient EBIT margin 16%
Robust ROCE > 20%

What has and is changing which may make today the company stronger than ever

A cultural change which can benefit from structural inflation environment
A shortage of offer since the war in Ukraine which does not ease with current energy price | No capacity increase expected the next 2 years
Client natural constraint to build up inventory
A vital need for all industry players to significantly increase their prices to offset energy cost inflation
Verallia is the unique player to benefit from its energy hedging policy (2021 – 85% hedged for the next 3 years)
Cost leadership and now even price leadership : much less price aggressive than its competitors whereas robust EBIT margin c. 16% when falling for others

An industry that will need to further consolidate on the back of the required investment to reach CO2 emission reduction requested by them clients / regulation
An inefficient B/S with 2022e net debt / EBITDA c. 1x leaving room for bolt on acquisitions and / or share buy-back

Conclusion

Questions & Answers