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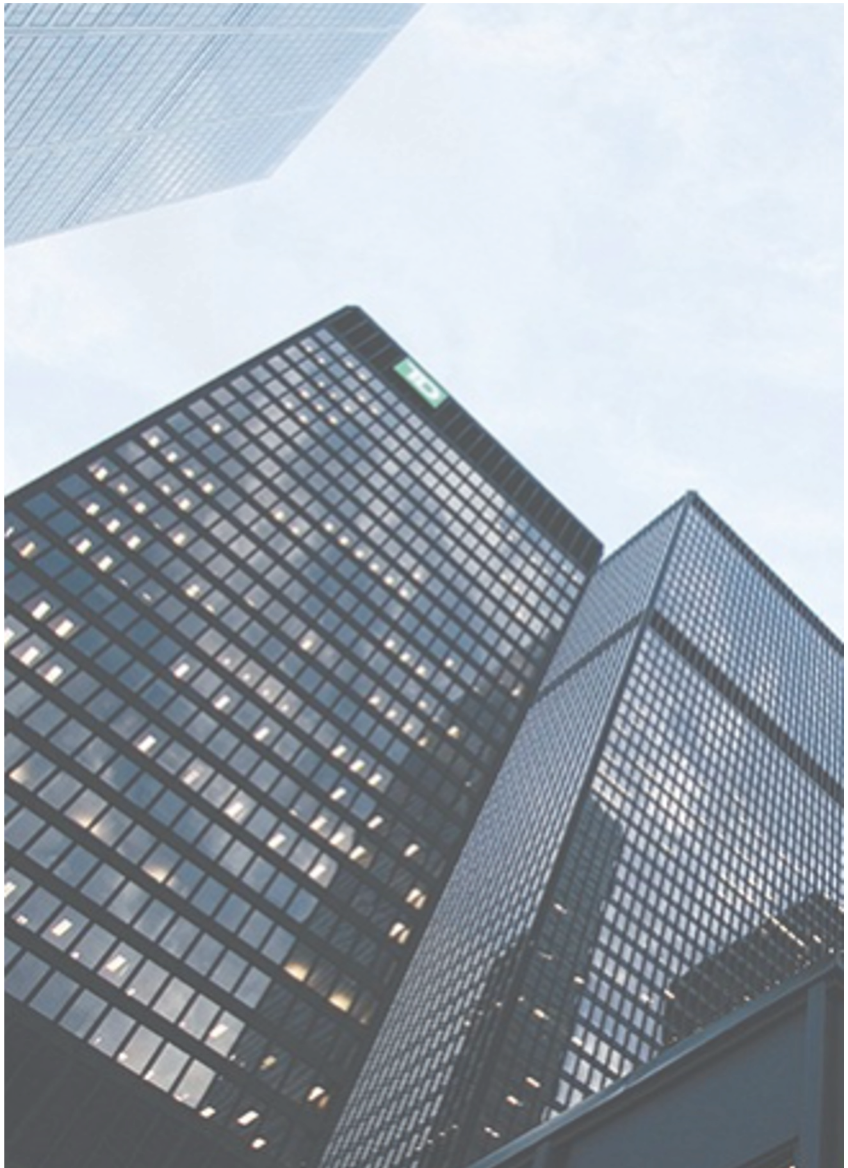
Portfolio Management Club

VP Asset Management

Asset Reassessment

September 2023

Fall 2023



AGENDA

- Rationale
- Structure and Content
- Valuation
- Asset Coverage
- Allocation

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Asset Reassessments

Rationale

20 September 2023

Fall 2023

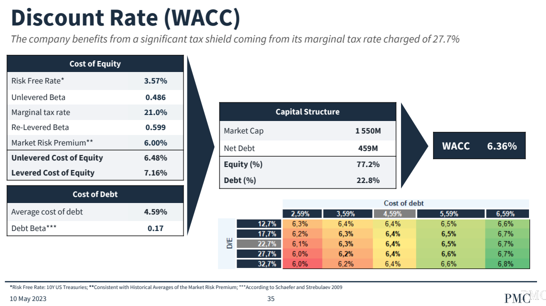
Rationale

“Time will send you an invoice” - Morrissey

The passage of time	*Review valuation*	*Learning opportunity*

- **The market doesn’t sleep**
  - New catalysts
  - New risks
- **Some securities have been in our portfolio for more than 2 years**
  - E.g., **Hologic** was presented in the Fall of 2021
    - Survivors:
      - Me
      - Daniel
      - Alexandre
      - Andreia

- **Important to develop new DCFs**
  - WACC has changed
  - Review growth prospects
  - We have improved massively the quality of our valuations
    - **Update them according to the new standard**



Discount Rate (WACC)

The company benefits from a significant tax shield coming from its marginal tax rate charged of 27.7%

Cost of Equity	
Risk Free Rate*	3.57%
Unlevered Beta	0.486
Marginal tax rate	21.0%
Re-Levered Beta	0.599
Market Risk Premium**	6.00%
Unlevered Cost of Equity	6.48%
Levered Cost of Equity	7.16%

Cost of Debt	
Average cost of debt	4.59%
Debt Beta***	0.17

Capital Structure	
Market Cap	1 550M
Net Debt	459M
Equity (%)	77.2%
Debt (%)	22.8%

WACC	6.36%

		Cost of debt				
		2,59%	3,59%	4,59%	5,59%	6,59%
D/E	12,7%	6,3%	6,4%	6,4%	6,5%	6,6%
	17,7%	6,2%	6,3%	6,4%	6,5%	6,7%
	22,7%	6,1%	6,3%	6,4%	6,5%	6,7%
	27,7%	6,0%	6,2%	6,4%	6,6%	6,7%
	32,7%	6,0%	6,2%	6,4%	6,6%	6,8%

*Risk Free Rate: 10Y US Treasuries; **Consistent with Historical Averages of the Market Risk Premium; ***According to Schaefer and Strebulaev 2009

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- **2/3 of the members of the investment teams have just entered in the club**
  - Way of getting acquainted with templates, pitch structure and valuation

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Asset Reassessments

Structure and Content

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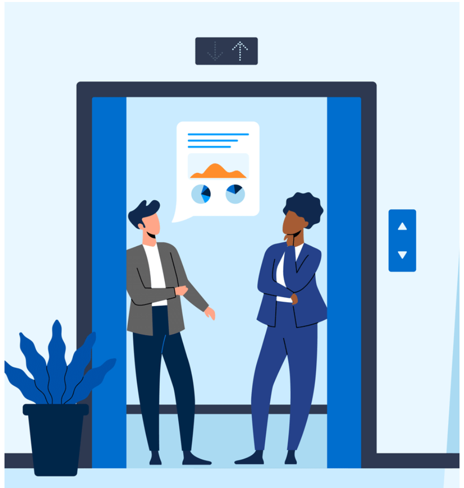
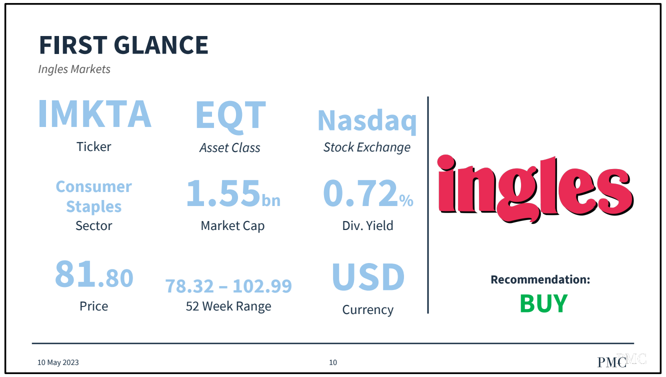
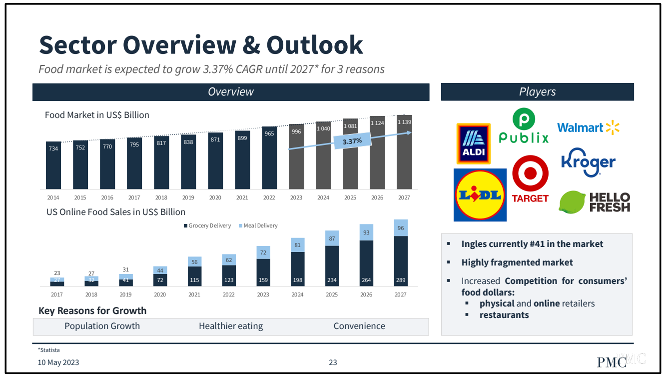
Structure and Content

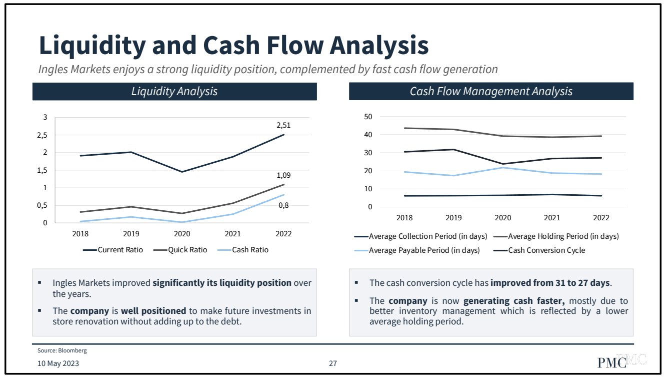
What to include (1/2)

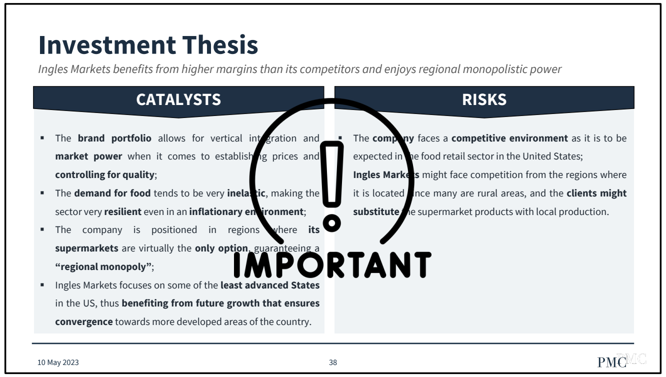
"Elevator" Summary	*First Glance Slide*	*Sector/Industry Outlook*
		
▪ Explaining in less than 1 minute the main points of the thesis presented by the original team and mention the original catalysts	▪ Self-explanatory ☺	▪ Quick outlook on the sector ▪ Present what has changed relatively to the outlook presented originally

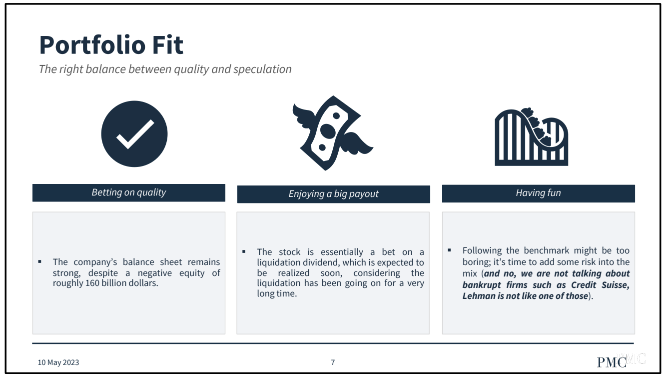
Structure and Content

What to include (2/2)

Financial Analysis	*Analysis of Catalysts and Risks*	*Portfolio Fit*







- Profitability and Efficiency
- Liquidity and Cash Flows
- Debt schedule and financing costs

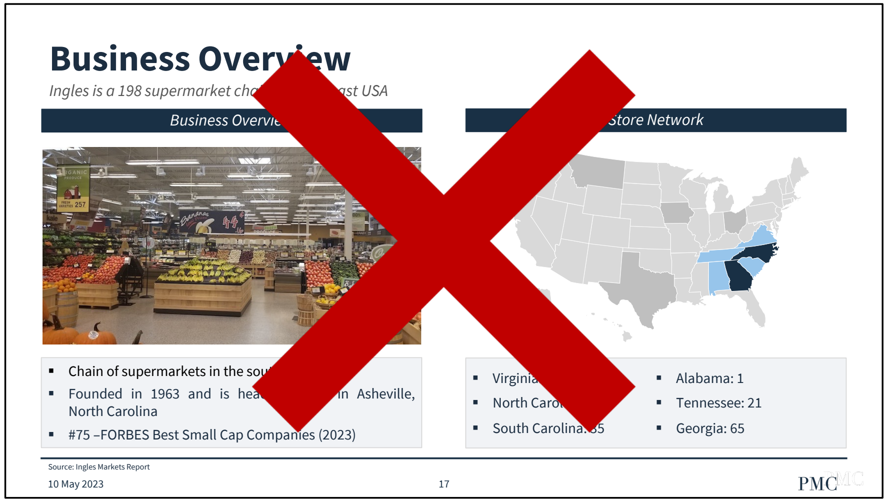
- Analyze the catalysts mentioned in the original pitch
- Analyze the risks and add new ones
- **More on this later**

- Does it fit the strategy presented by the Portfolio Managers?
- Does it fit the initial purpose?
  - E.g., dividends - Petrobrás

Structure and Content

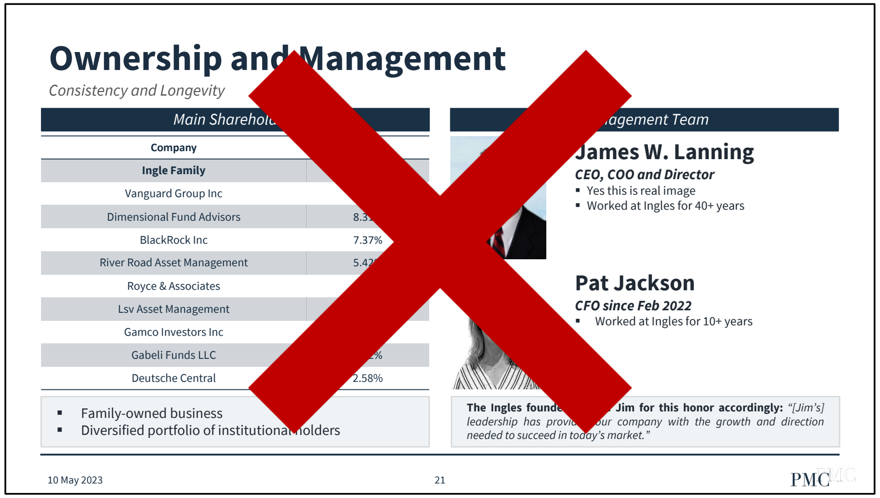
What NOT to include

Company Overview



- Every person in the room **MUST** read the original pitch beforehand, to avoid losing time presenting and preparing information already produced

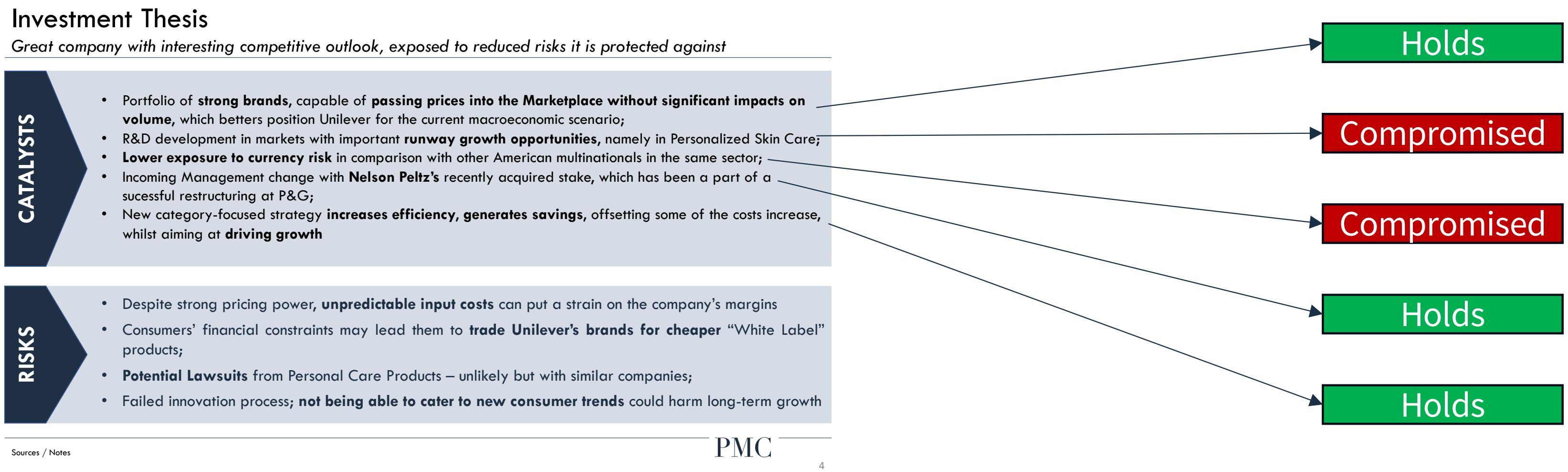
Information somewhat static



- Information that hasn't changed since the original pitch
- Information that doesn't add value in a perspective of reappreciation

Catalysts and Risks

Most importantly…



- *The team presenting the reassessment must pinpoint for every catalyst whether it HOLDS or is Compromised*
- ***We can only consider selling a position if one of the catalysts presented in the original pitch ceased to exist or has been seriously compromised***
- *List new risks that have arisen since the original pitch*
- ***Important:*** *Pay attention to the investment horizons defined in the recommendation*

For Every Stock Pick From Now On

Every single pitch must have a slide with specific catalysts that support the thesis and will be reappreciated in the future

Good Example

Catalysts

- The boom of commodities. Historically this stands for 5 to 10 years.
- Ukraine war and Chinese lockdowns, which made the commodities prices go up more than expected.
- China doesn't have production to supply the indoor market which can be translated in more exportations in price (Brazil represents 4% of the Chinese importations and is the 8 country that most impact in Chinese importations and SLC Agricola has 40% to 50% of their revenues going to Asia).
- Hike on interest rates of FED could bring more revenue to enterprise due the dollar appreciation.
- The management has accumulated a lot of inventories when prices was down in 2020 and 2021. With these prices, if we have a scarcity in the corn, cotton and soybean this could be translated in more revenues if the company sells their inventory a high price.
- The acquisition, at a low price, of Terra Santa results in a huge synergy. The business of lands and the asset light business model could bring not only an improvement for Terra Santa business but also to the margins and operational growth of the company.
- La Ninã can impact in Supply chain in USA, making Brazil have more capacity to trade Soybean and Cotton.

- Specific
- Quantifiable
- Linked to the thesis

Still, you should seek to stick to 3-4 catalysts

Bad Example

Midea is a top-quality company…

- Strong business model and a well-defined strategy
- Impressive financial results, with positive prospects for the near future
- Market and industry leader at China
- Good margins and fundamentals when comparing with the most similar peer (Haier)
- Well positioned to tackle the main trends of business of tomorrow

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- Generic
- Mostly qualitative
- Static (Where is growth? Why is it undervalued?)

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Asset Reassessments

Valuation

20 September 2023

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Valuation

“The worth of a business is measured not by what has been put into it, but by what can be taken out of it” – B. Graham

DCF

DCF	2019	2020	2021	2022	2023	2024	2025	2026	2027
FCF	122,7	269,9	173,6	219,7	95,4	115,0	123,6	131,9	139,3
PV of FCF					**89,7**	**101,7**	**102,8**	**103,1**	**102,4**

PV of FCFO	**499,5**
PV of TV	**2 139,6**
Enterprise value	**2 639,2**
(Net debt)	(458,9)
Surplus assets (inc. associates & pension	(75,9)
Equity value	**2 104,4**
Number of shares (m)	19,1
Equity value per share (€)	**110,18**
Current stock price	**81,58**
Potential Upside	35%
Implied EV / EBITDA 2022A multiple	5,3x

Sensitivity analysis

Lower bound	1 665,2
Upper bound	2 706,6
Average	**2 115,1**

DCF sensitivity: WACC and perpetual growth - Equity Value

	Perpetual growth				
WACC	0,50%	1,00%	1,50%	2,00%	2,50%
5,4%	2 175,1	2 436,9	2 765,8	3 191,4	3 763,7
5,9%	1 917,8	**2 127,0**	**2 383,9**	**2 706,6**	3 124,2
6,4%	1 704,1	**1 874,7**	**2 080,0**	**2 332,1**	2 648,8
6,9%	1 523,9	**1 665,2**	**1 832,6**	**2 034,1**	2 281,5
7,4%	1 369,9	1 488,5	1 627,1	1 791,4	1 989,2

- Present a DCF updated with Trailing 12 Months data
- Use PMC official excel template
- Read the instructions

Include/Update relative valuation

Relative Valuation

Ingles Markets is undervalued according to the most common relative valuation metrics

Metric	Ingles Markets	Weis Markets	Sprouts Farmers	Natural Grocers	Kroger	Grocery Outlet Holding	Albertsons	Median
P/E Actual	5.7x	17.4x	14.2x	11.1x	15.6x	44.9x	7.4x	**14.2x**
P/E Forward	6.9x	14.5x	14.0x	13.5x	11.1x	44.7x	7.5x	**13.5x**
P/B	1.15x	1.6x	3.6x	1.6x	3.5x	2.7x	-	**1.6x**
P/FCF	15.3x	21.7x	15.0x	20.2x	25.0x	53.5x	15.5x	**17.9x**
EV/ Sales Actual	0.3x	0.4x	0.8x	0.6x	0.4x	1.2x	0.3x	**0.4x**
EV/ Sales Forward	0.3x	0.4x	0.7x	0.5x	0.4x	1.1x	0.3x	**0.4x**
EV/EBITDA Actual	3.9x	6.8x	10.2x	5.2x	6.8x	13.4x	4.6x	**6.8x**
EV/EBITDA Forward	4.4x	7.2x	9.8x	10.8x	7.0x	17.7x	7.3x	**7.2x**
Dividend Yield	0.72%	1.76%	-	3.51%	2.10%	-	2.31%	**2.21%**
Market Cap (€)	1.6B	2.2B	5.0B	238.6M	35.1B	2.9B	12.0B	**2.9B**

Source: Bloomberg

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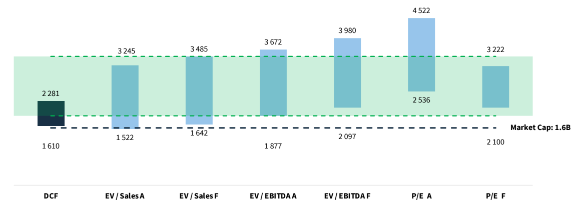
- Include an update of the relative valuation
- You are free to include new peers (if necessary)

Football field and Recommendation

Football Field

Ingles Markets is currently undervalued with a potential upside of 35% based on the DCF



The DCF model resulted in an intrinsic equity value of **110.18€** per share, which represents a **35%** upside from the current share price of **81.58€**

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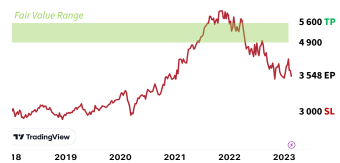
RECOMMENDATION: BUY

Do you recommend trimming/exiting any position? Do you recommend decreasing exposure to any sector? (always to be discussed with PM)

Investment Horizon:	**3 years**
Fair Value Range:	**$ 4 970 - $ 5 560**
Entry Price:	**$ 3 548**
Take Profit / Stop Loss:	**$ 5 600 / $ 3 000**
Proposed Allocation:	**3.5 %**



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Include revised Recommendation (overweight / sell*)

*** Conditional to the deterioration of catalysts, valuation or portfolio fit. Otherwise, it will not be considered.**

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Asset Reassessments

Asset Coverage

20 September 2023

Fall 2023

Asset Coverage vs. Asset Reassessment

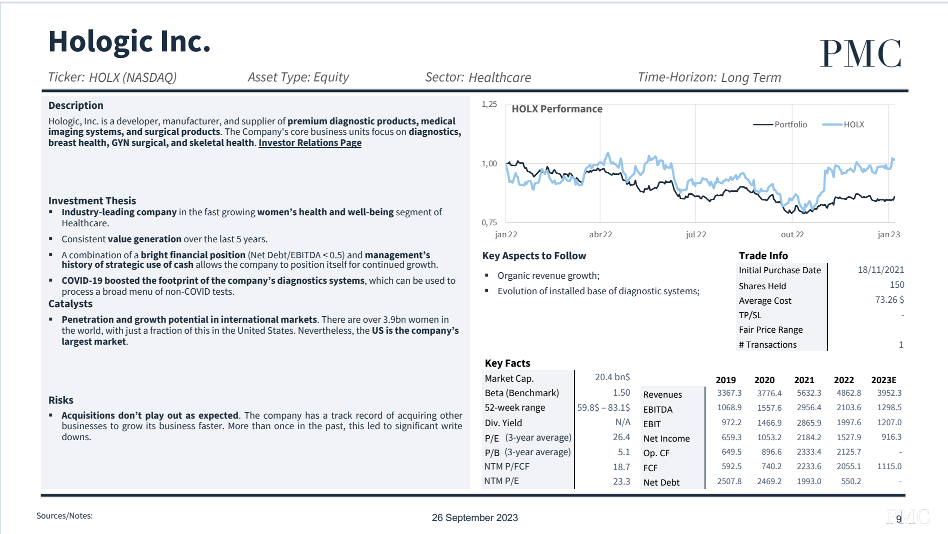
“Work is a Four-letter word” – Cilla Black

Asset Coverage	*Asset Reassessment*

▪ Conducted by one analyst
▪ Every position of the portfolio will have an analyst assigned
▪ 3-5 minutes presentations after earnings calls
▪ Only required to update inputs periodically
    ▪ We aim to partially automatize this process trough Bloomberg
▪ Must be on top every week of the news/developments of the company
▪ To issue recommendations:
    ▪ Disappearance/deterioration of catalyst
    ▪ Imminence of the investment horizon
    ▪ Significant risk that must be first presented to the PMs before issuance of recommendation
	▪ Conducted by a whole team
	▪ Only 9 pitches will be reassessed this semester, in accordance with criteria defined by the PMs
	▪ 3 presentations of 10 minutes each (2 will be in the same day) by team
	▪ Required to conduct a new DCF (still you can recycle drivers from the original DCF)
	▪ To issue recommendations:
	    ▪ Disappearance/deterioration of catalyst
	    ▪ Imminence of the investment horizon
	    ▪ Significant risk that must be first presented to the PMs before issuance of recommendation

Holdings Book

“Know what you own, and know why you own it” – Peter Lynch



Hologic Inc.

PMC

Ticker: HOLX (NASDAQ) *Asset Type: Equity* *Sector: Healthcare* *Time-Horizon: Long Term*

Description

Hologic, Inc. is a developer, manufacturer, and supplier of **premium diagnostic products, medical imaging systems, and surgical products**. The Company's core business units focus on **diagnostics, breast health, GYN surgical, and skeletal health**. **Investor Relations Page**

Investment Thesis

- **Industry-leading company** in the fast growing **women’s health and well-being** segment of Healthcare.
- Consistent **value generation** over the last 5 years.
- A combination of a **bright financial position** (Net Debt/EBITDA < 0.5) and **management’s history of strategic use of cash** allows the company to position itself for continued growth.
- **COVID-19 boosted the footprint of the company’s diagnostics systems**, which can be used to process a broad menu of non-COVID tests.

Catalysts

- **Penetration and growth potential in international markets**. There are over 3.9bn women in the world, with just a fraction of this in the United States. Nevertheless, the **US is the company’s largest market**.

Risks

- **Acquisitions don’t play out as expected**. The company has a track record of acquiring other businesses to grow its business faster. More than once in the past, this led to significant write downs.

Key Aspects to Follow

- Organic revenue growth;
- Evolution of installed base of diagnostic systems;

Trade Info

Initial Purchase Date	18/11/2021
Shares Held	150
Average Cost	73.26 $
TP/SL	-
Fair Price Range	
# Transactions	1

Key Facts

Market Cap.	20.4 bn$
Beta (Benchmark)	1.50
52-week range	59.8$ – 83.1$
Div. Yield	N/A
P/E (3-year average)	26.4
P/B (3-year average)	5.1
NTM P/FCF	18.7
NTM P/E	23.3

	2019	2020	2021	2022	2023E
Revenues	3367.3	3776.4	5632.3	4862.8	3952.3
EBITDA	1068.9	1557.6	2956.4	2103.6	1298.5
EBIT	972.2	1466.9	2865.9	1997.6	1207.0
Net Income	659.3	1053.2	2184.2	1527.9	916.3
Op. CF	649.5	896.6	2333.4	2125.7	-
FCF	592.5	740.2	2233.6	2055.1	1115.0
Net Debt	2507.8	2469.2	1993.0	550.2	-

Sources/Notes:

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9

What is the holdings book?

- Slide deck with EVERY single security present in PMC’s portfolio
- Includes the following information about the security:
  - Description
  - Investment Thesis
  - Catalysts and Risks
  - Performance graph
  - Key aspects to follow
  - Trade info and Key facts
- **The analyst allocated to the security is responsible for the elaboration/maintenance of his/her respective security entry**
- **Every member under the Asset Management umbrella must read the holdings book**

Example

Some rough guidelines (more extensive on the actual slide deck)

Description:
- Main activities
- Ownership structure

Investment thesis:
- Portfolio fit
- General competitive advantages
- Static proofs of quality

Catalysts:
- Non-static factors that should drive appreciation
- Factors mispriced by the market
- *Ipsis verbis* as in the pitch

Public Storage

PMC

Ticker: PSA (NYSE) *Asset Type: Equity* *Sector: Real Estate* *Time-Horizon: Long-Term*

Description

Public Storage (PSA) was founded in 1972. Their principal business activities include the **ownership and operation of self-storage facilities** and other related operations including **tenant reinsurance** and **third-party self-storage management**. They are the **industry leading owner and operator** of self-storage properties with a recognizable brand, including the ubiquitous orange color, which is one of the most recognizable within the industry.

IR: https://investors.publicstorage.com/investor-relations/default.aspx

Investment Thesis

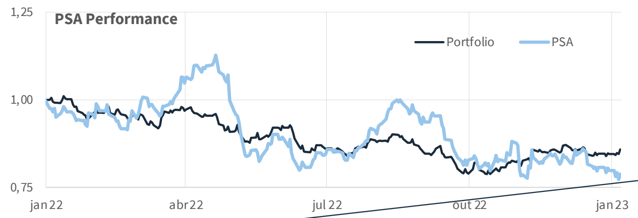
- **Unmatched scale** in the industry with **great brand recognition**
- **Low cost of capital** to facilitate further expansion
- **Industry leading revenue generation** with great **cost-efficiency** and **technological edge**
- Very valuable land in urban America acquired at very cheap prices (due to the pioneerism of the company); **one of the biggest owners of land in urban America**
- Amazingly **stable and growing cash flow** to be a compounding wonder for the company

Catalysts

- **Great expansion** plans and **executional prowess**
- **Low-cost business** but one where you can raise prices quickly
- **Third party management** and **insurance segment** with great prospects and risk adjusted returns
- Considerably **low correlation** to the overall economy due to the **non-cyclicality of demand**
- **Acquisition opportunities** from **distressed property owners**; tons of readily available cash

Risks

- Might be **overvalued** (although there is a clear inherent premium to the company's stock)
- **Higher input costs**, especially in commodities used for construction and general wage inflation
- **Oversupply risks** as one of the main concerns
- **Low barriers to entry** to potentially create some hurdles in certain locations



Key Aspects to Follow

- **Share Price** (PSA was acquired at a premium for our portfolio)
- **Third-Party Management** and **Insurance** development
- Dividend could be higher, look for future guidance on that

Trade Info

Initial Purchase Date	
Shares Held	
Average Cost	
TP/SL	
Fair Price Range	
# Transactions	

Key Facts

Market Cap.	
Beta (Benchmark)	
52-week range	
Div. Yield	
P/E	
P/B	

	2019	2020	2021	2022	2023E
Revenues					
EBITDA					
EBIT					
Net Income					
Op. CF					
FCF					
Net Debt					

Sources/Notes: **Read Q&A PSA under Position updates folder for some important notes**

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Key Aspects to Follow:
- Aspects that should be reviewed and presented by the analyst in coverage after earnings calls

Risks:
- Static and non-static factors that can affect growth and valuation
- Structural or temporary

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Asset Reassessments

Allocation

20 September 2023

Fall 2023

Investment Team 1

To be presented next week

Hologic	*Deere & Company*

Investment Team 2

To be presented next week

Kering	*Allianz*
	

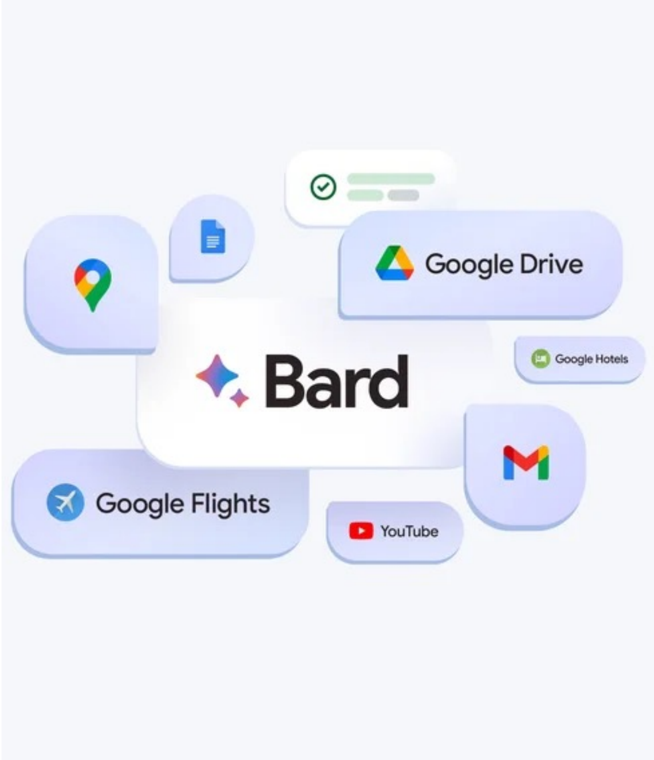
Investment Team 3

To be presented in 2 weeks

British American Tobacco	*Leidos*
	

From week 8 onwards

Potential securities to be reassessed

Visa	*Public Storage*	*Alphabet*
		

Asset Management

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