AVI
Asset Value Investors

Holding Companies: The Path Less Trodden

info@assetvalueinvestors.com
2 Cavendish Square
London W1G 0PU

Holding Companies: The Path Less Trodden

Since 1985, AVI have followed the same distinctive bottom-up approach to global equities.

We look for three things:

1. **A**sset – *durable businesses that are growing in value*
2. **V**alue – *trading at discounted values*
3. **I**nvesting – *with an active approach to unlocking value*

Family-controlled holding companies have been at the heart of the portfolio for this entire period.

At AVI's inception, there were several French holding companies that had complex cascade structures that attracted discounts upon discount.

We were able to align capital with thoughtful, long-term orientated families, that owned attractive quality assets, with significant upside potential from discount narrowing and corporate restructuring.

These same fundamental attractions remain at the heart of our approach today.

The decade that's been:

Just over a decade ago, in December 2014, Goldman Sachs dropped research coverage of European holding companies.

An innocuous event, which meant very little for most participants in financial markets.

December 17, 2014

Goldman Sachs

Europe: Multi-Sector Holdings

Equity Research

Terminating coverage of 17 Multi-Sector Holding stocks

Summary
Markus Iwar has moved to another role within Global Investment Research.

Terminating coverage
We are terminating coverage of 17 stocks. This report summarizes our rating and final view on each company.

All timeframes for price targets mentioned in this report are 12 months unless otherwise stated. All prices, estimates and ratings in this report are as of December 15, 2014, unless otherwise stated.

This is our final report on the following companies:

- Aker ASA (AKER.OL)
- Compagnie Industriali Riunite Spa (CIRX.MI)
- Corp Fin Alba (ALB.MC)
- Groupe Bruxelles Lambert (GBLB.BR)
- Heineken Holding (HEIO.AS)
- Industrivarden (INDUa.ST)
- Italmobiliare (ITMI.MI/ITMIn.MI)
- KBC Ancora (KBCA.BR)
- L E Lundbergforetagen AB (LUNDb.ST)
- Pargesa (PARG.S)
- Rallye (GENC.PA)
- Ratos (RATOb.ST)
- Reinet (REI.J)
- Sacyr (SCYR.MC)
- Semapa (SEM.LS)
- Wendel (MWDP.PA)

For us however, it was symbolic of the environment.

For the last decade, investor attention has been funnelled toward large cap global equities generally, and a handful of US technology stocks specifically.

The world of holding companies has become more irrelevant than ever.

We believe such circumstances create a perfect environment for fundamental stock picking.

In this paper we aim to reshine the light on the overlooked and misunderstood world of family controlled holding companies.

The Path Less Trodden:

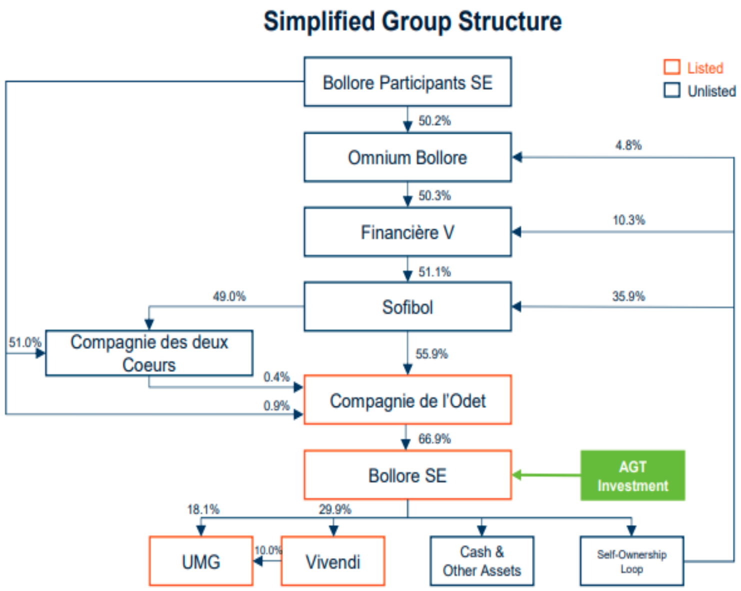
So why are holding companies so misunderstood?

Complex structures:

Family holding company structures are often complex. They can have multiple share classes with differing rights; or they might form part of a cascade, where one holding company owns another holding, creating discount upon discount. Such structures often don't "screen" well, and as such the underlying economics and value may not be captured in a cursory glance.

Example case study – **Bollore SE (1.9% weight in AVI Global Trust)**

Churchill wasn't taking about Bollore SE when he uttered the phrase "a riddle wrapped in a mystery inside an enigma" – but he might as well have been.



The Bollore Group structure is notoriously and (in) famously complex, with multiple layers of holding company and a so-called Bretton Pulley system whereby there are circular loops in ownership. The structure has allowed Vincent Bollore – who bought the family business back from the banks for 1 solitary franc in the 1980s – to build a powerful empire, maintaining control with limited capital outlay.

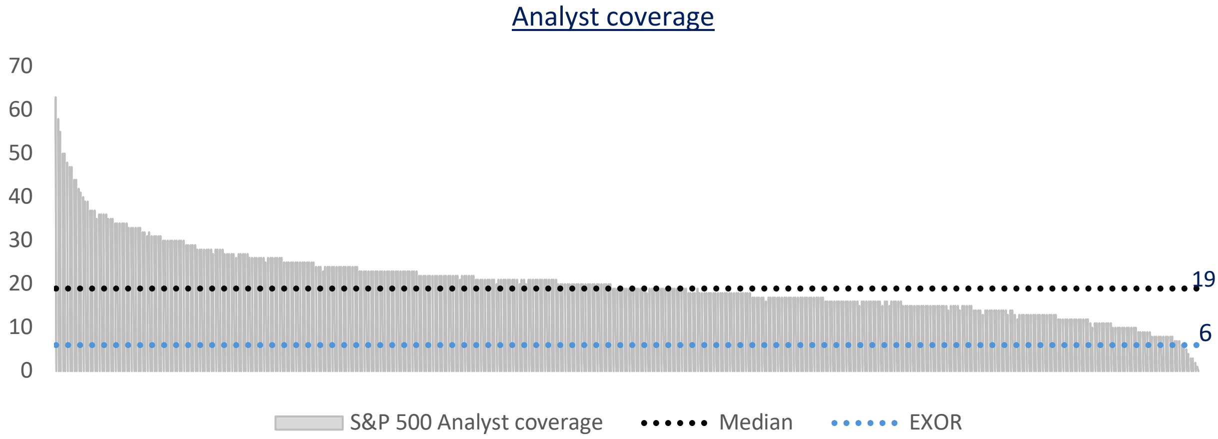
Today the structure means that in-effect the true economic shares outstanding are less than half that are publicly stated. This obfuscates value and leads to discount upon discount across different layers of the structure. What you see is not what you get. We believe there is scope for the structure to be simplified in accretive ways, and in the meantime Bollore offers exposure to Universal Music Group – an attractive, growing business – at a discounted valuation.

Under-Researched:

Holding companies are typically under-researched. With diverse portfolios of assets across sectors, such companies do not fit neatly into different research teams' buckets. Moreover, with small free-floats and low probability of equity issuance, the economic incentive to promote such stocks is limited. These trends have been compounded by changes in market structure over the last decade, as investor attention and capital has flooded toward larger cap index companies.

Example case study – ***EXOR (2.3% weight)***

EXOR – the Agnelli family controlled holding company – is one of Europe's largest family-controlled holding companies, with a NAV of some €37bn.



Yet it has just 6 analysts who cover it. This compares to a median number of 19 for companies in the S&P 500 and Amazon – the most widely covered – with a whopping 63.

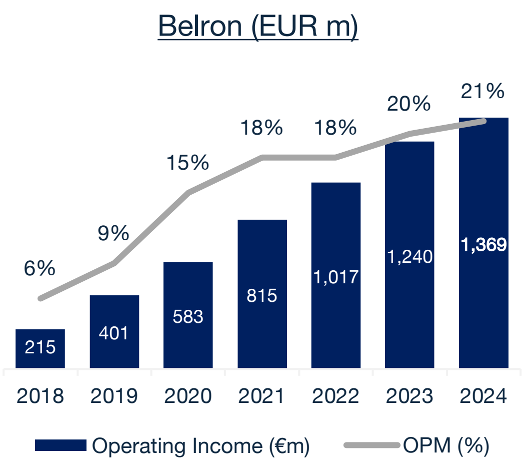
We like to look where others aren't – in places where mispricing's are more likely occur.

Unlisted Assets:

The lack of research particularly comes to the fore when it comes to unlisted assets, the valuation of which are less certain by their very definition. We do some of our best work when we can build a differentiated view on the value of an unlisted asset and then look for events – such as an IPO or sale – to validate this valuation and make the market wake up and re-value it.

*Example case study – **D'Ieteren (7.0% weight)***

A seventh-generation Belgian holding company hardly sounds like the place to find an attractive investment (and hence many aren't looking there), but for the beady eyed there is much on offer.



D'Ieteren (said seventh-generation holding company and currently a 7.0% weight in the portfolio) owns a 50% stake in Belron, which readers might be more familiar with as Autoglass (UK), Safelite (US) or Carglass (EU). Belron is many multiples larger than competitors, with >40% US market share, giving it significant scale advantages in terms of purchasing economies of scale and cost leadership, relationships with insurance partners who are industry gatekeepers, and technological investment, which has become increasingly relevant.

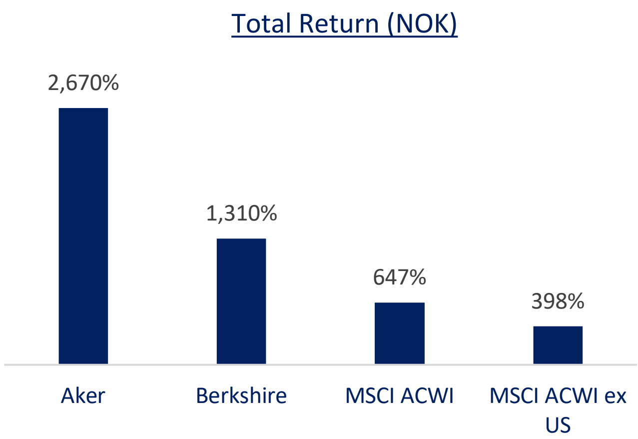
Increased windshield complexity and the requirement for Advanced Driver Assistance System ("ADAS") cameras to be recalibrated upon replacement, has re-accelerated top-line growth and taken margins from 6% in 2018, when we visited the European Distribution Centre in Bilzen, to north of 21% today. Over this time period, private equity investors have bought stakes in Belron at an initial valuation of €3bn in 2018 up to €32.2bn in 2024. At this latest valuation, D'Ieteren's 50% stake is worth €221 per D'Ieteren share, versus the current share price of €159. Over time, we expect further sales or an IPO to crystallise this value and support a re-rating in D'Ieteren's shares.

Controlling Shareholders:

As the name suggests, family-controlled holding companies have large family ownership stakes. The consensus view on such situations is one of scepticism. However, we take the other view, and believe the market underappreciates the attractiveness of aligning capital with long-term orientated families, who think in generations rather than quarters. In many ways we think of families as being their very own "activists", driving change and creating value for all shareholder through active portfolio management.

Example case study – ***Aker (4.5% weight)***

In 1996 Kjell Røkke became the largest shareholder in Aker – an industrial group dating back to the 1840s. Aker re-listed in 2004 and has subsequently achieved annualised shareholder total returns of +17.6%.



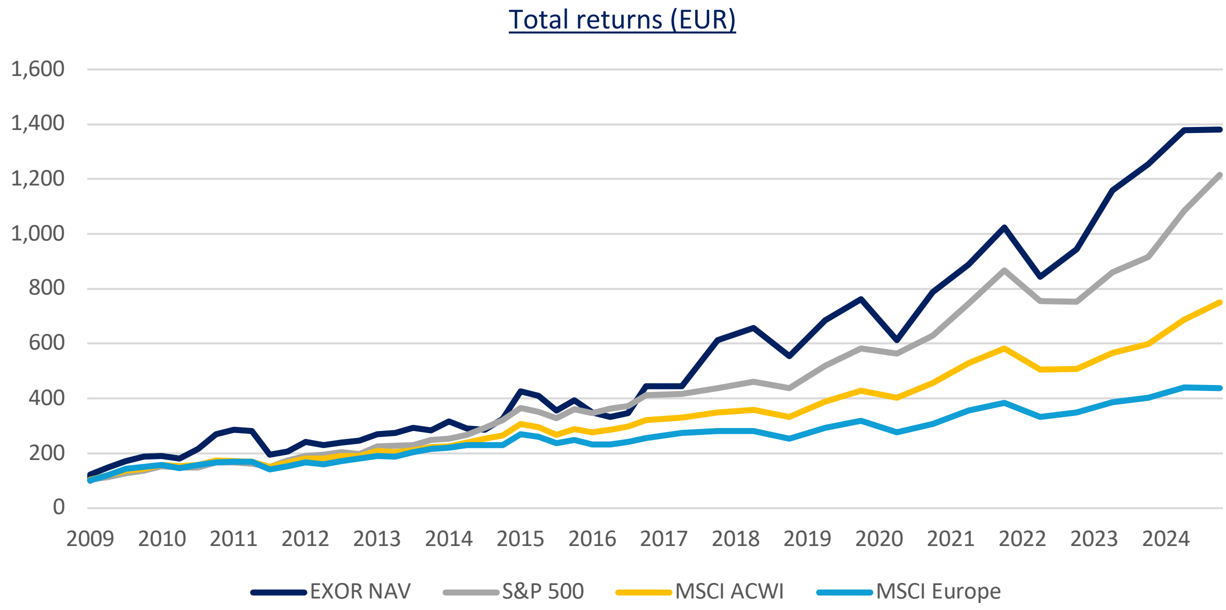
These strong returns have been built on active portfolio management and deal making, principally in oil and gas and related sectors. In the early years, Aker's performance was built on the boom in oilfield services, followed over the last decade by growth in oil exploration and production ("E&P"). This culminated in the creation of Aker BP – the product of a merger between Det Norske and BP subsidiary BP Norge – in 2016. Aker BP has continued to grow both organically and in-organically, acquiring assets from Hess in 2017 and Lundin Energy's E&P business in 2022. Over the last year, we have seen increasingly dynamic capital realisation and allocation at the Aker ASA holding company level, streamlining assets and unlocking value – for instance through the splitting in two of Aker BioMarine to realise value from the Feed Ingredients business.

This more focused Aker has allowed for increased shareholder returns, with the company targeting 4-6% of NAV in annual dividend payments. On the current share price, this equates to a yield of ~9%. We believe this to be good value.

EXOR - A Market Allegory:

Since 2016 we have been shareholders in EXOR – the holding company of the Italian Agnelli family. As a company and as a stock we believe it provides an interesting lens into the world of family-controlled holding companies.

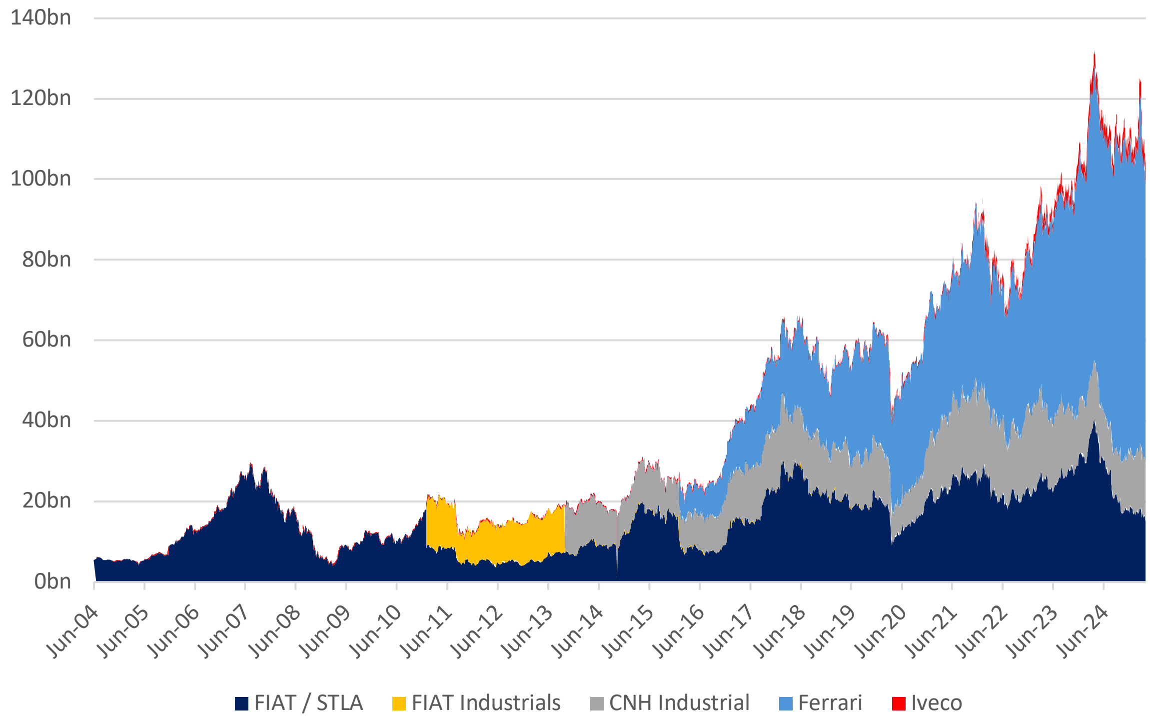
EXOR was established in 2009 by the merging of two companies (IFIL & IFI). John Elkann – the great grandson of Fiat's founder – is the CEO, and has built an enviable track record of returns, compounding NAV well in excess of global equity markets.



Akin to Aker discussed above and like all the best holding companies, EXOR, under John Elkann's leadership, has adopted an active approach to unlocking value.

This is best demonstrated from the returns that have been extracted from what was once Fiat. In 2006, when the late-great Sergio Marchionne was appointed Fiat's CEO, the company had a market cap of €5.5bn. Today Stellantis – as it subsequently became – and the entities that have been spun off – Ferrari, CNH Industrial and more latterly Iveco – have a combined market value of just north of €100bn. This equates to an 19x return or CAGR of +15.1%.

The Marchionne playbook - value a from FIAT since 2004 (EUR bn)



Alas for us, we have not benefited from the full extent of this 19x return!

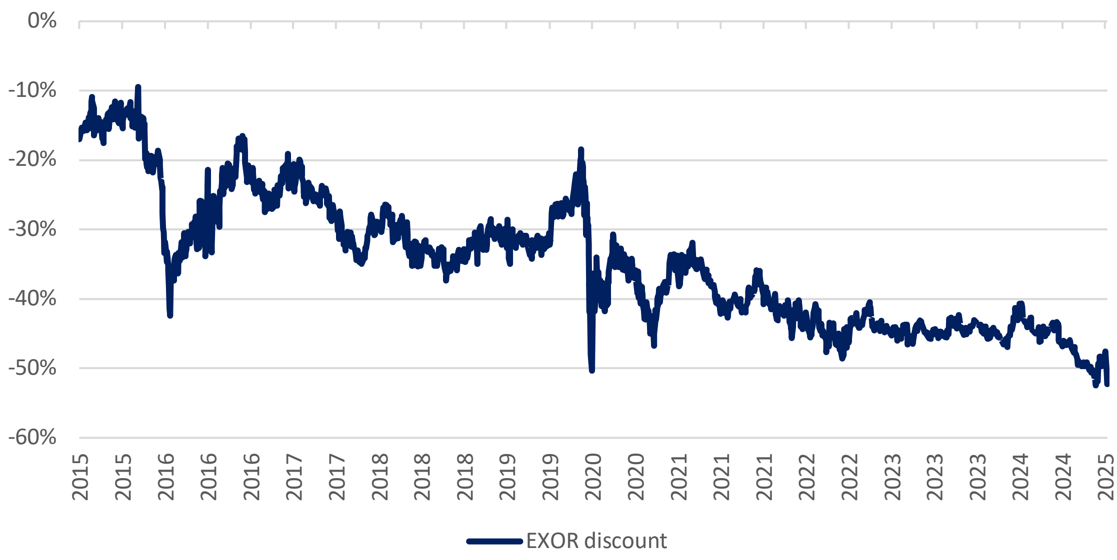
We started to build a position a position in 2016. At the time, this was predicated on the undervaluation of what was then Fiat Chrysler and the potential for significant value creation through consolidation of the Autos industry (as Sergio Marchionne had laid out in his Confessions of a Capital Junkie). In addition to the attractive NAV growth prospects from Ferrari, which we thought to be an exceptional, but probably fairly priced company at 19x NTM EV/EBIT and CNH Industrial, which was at the time in the doldrums of the agriculture cycle. As well as this we were attracted to (what we then!) considered to be a wide discount of c.25% and the alignment of interest with John Elkann as a sagacious capital allocator.

Overall, it has been a moderately successful investment, generating a return of +38% and an IRR of +10%.

Well-informed readers will be aware of what we've got right and what we've got wrong.

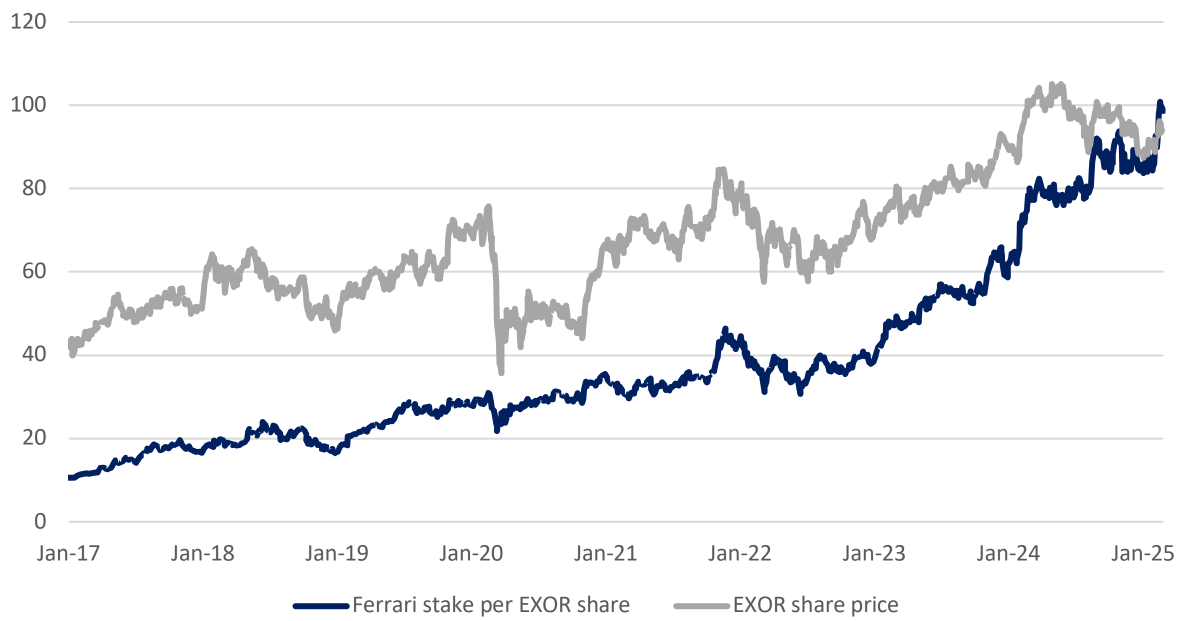
We were right on Fiat Chrysler. We estimate that – inclusive of dividends – EXOR has more than doubled (+121%) its money from FCA since the end of 2016 – even inclusive of the current more than -50% drawdown in Stellantis shares. The merger with PSA to form Stellantis created considerable value, as platform harmonisation and the pooling of capex and R&D budgets yielded meaningful synergies. It has since become clear that the business over earned, pushing pricing and margins too far, and damaging relationships with the US dealer network.

However, the bulk of our returns have come from Ferrari, where financial and operational performance has been exceptional, and the market has rewarded this with a higher valuation multiple to reflect the strong and durable growth. Since 2016, units, revenues and adjusted operating profit have grown +72%, +115% and +199%, respectively. Concurrently, the NTM EV/EBIT multiple has expanded to 34x. This has resulted in a more than +600% return for Ferrari's shares.



One thing we underestimated was the extent to which EXOR's discount could widen – from c.25% at the time of first purchase to 52% currently. Aside from a handful of days during March 2009 and again during the COVID 2020 sell-off, the current discount is the widest on record and compares a 10-year average of c.35%.

Indeed, by late February 2025 the stake in Ferrari accounted for more than 100% of EXOR's market cap. Highlighting the proactive nature of family control, on 26th February 2025, EXOR sold 15.8% of its stake at a value of equating to ~8% of NAV and ~17% of market cap. This frees up capital for new investments and share buybacks, with the launch of a new €1bn reverse



Dutch tender offer. At current prices this equates to 6% of shares outstanding and – if conducted at the current discount – would add +2.5% to NAV, with a risk-free ROI of +95%. This is exactly the kind of capital allocation we look to align ourselves with.

Despite the management's proactiveness, the market remains unmoved, with EXOR still languishing on an 52% discount. We believe this is emblematic of the current environment: a family-controlled holding company making smart, value-enhancing decisions, and a market that simply shrugs its shoulders and doesn't care.

Although EXOR lacks the more distinct hard catalyst of other positions in the portfolio, we have been modestly adding to the position, intrigued by the market's indifference.

AVI's Approach:

This year will mark 40 years of AVI as the investment manager of AVI Global Trust.

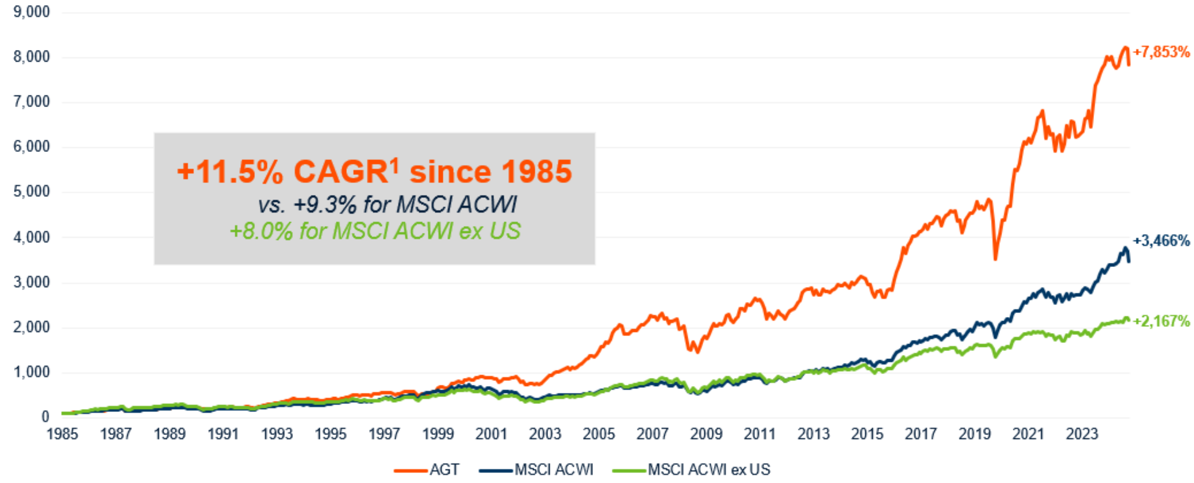
Over this period, we have compounded returns at +11.5%* per annum.

Family-controlled holding companies have been at the heart of our approach for this entire period.

We hope this article provides some explanation to their attractions, and the structural reasons for their undervaluation and underappreciation.

We believe these factors will likely persist into the future, providing a fertile hunting ground with our approach.

Combined with historically wide discount levels, we are optimistic about prospective long-term returns.



*Source: Morningstar, all figures to 31st March 2025 unless stated otherwise.

This document is issued by Asset Value Investors Limited ("AVI") which is authorised and regulated by the Financial Conduct Authority. The distribution of this document may be restricted by law and persons into whose possession it comes are required to inform themselves of and comply with any such restrictions. The information in this document is selective and subject to verification, completion and amendments. As such, all information and research material provided herein is subject to change and this document does not purport to provide a complete description of the investments or markets referred to or the performance thereof. No undertaking, representation, warranty or other assurance, express or implied, is or will be made and no responsibility or liability is or will be accepted by or on behalf of the Fund or Company or AVI or by any of their respective officers, servants or agents (as applicable) or by any other person as to or in relation to the accuracy or completeness of this document or the information or opinions contained herein and no responsibility or liability is accepted by any of them for the accuracy or sufficiency of any such information. All opinions expressed in this document are subject to change without notice and do not constitute advice and should not be relied upon.

Asset Value Investors
info@assetvalueinvestors.com
2 Cavendish Square
London W1G 0PU