# East 72 Dynasty Trust

**"a portfolio of quality businesses under the aegis of controlling shareholders"**

ISIN AU0000368219 ABN 43 935 022 778

## QUARTERLY REPORT #8: PERIOD TO 31 DECEMBER 2024 ©

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### Performance and net asset value

**Quarterly return†: 7.73% NET ASSET VALUE PER UNIT AT 31 DECEMBER 2024†: $1.2519**
**2024 year return†: 17.89% (estimated 20.6% before withholding tax and fees)**

*† after all ongoing and performance fees. High water mark at 31 December is $1.2557/unit*

The Dynasty Trust NAV increased by 7.7% during a quarter marked by an increase of investor optimism surrounding the election of the 47th US President, which faded markedly in late December as US long bond rates rose sharply. We derived some benefit from the material weakness in A$ versus US$ though weakness against our major € currency exposures was less than one-third of the US$ move.

Aside from a positive currency influence, we had counter-veiling negative impacts from hefty withholding tax imposts on the Vivendi split and D'Ieteren special dividend in Q4 CY2024, which are classed as expenses even though they are distributed (on paper) to unitholders in June. On a "gross-gross" basis, adding back fees and withholding tax we estimate the 2024 return would have been 20.6% and the quarterly return 8.64%.

We share little of the raging optimism promulgated after 6 November and remain very wary of US indices with their hefty weightings of technology stocks where earnings revisions over the course of 2024 have been flat to negative for three of the Magnificent 7 companies. Excluding these securities from the S&P500 index provides a multiple of around 16.5x earnings for the residual 493 stocks – not absurdly cheap but by no means outlandish and offering numerous potential opportunities. Hence, "macro market" themes, with one exception – expected volatility – provide no influence on our thinking.

We have been extraordinarily lucky. Our NAV has risen in six successive months which we would not expect in the normal course. In the quarter, we derived significant benefit from the two "sports data" exposures Catapult International (+53%) and Sportradar (+43%) together with two of our liquidity providers Virtu Financial (+17%) and Flow Traders (+14%) both appreciating higher volumes and volatility plus crypto market enthusiasm in the period. Adjusting for the significant dividend (pre-tax) D'Ieteren returned 24% over the three months; the largest portfolio detractor was Vivendi which fell by 21% in the quarter when we reconstitute the company back from its four components.

Aside from some loss harvesting, we were not especially active over the quarter apart from rearrangement of the ex-Vivendi exposures to eliminate Havas and re-emphasise "Vivendi RemainCo" and Canal+. We also sold the Louis Hachette Group holding, despite its NAV discount to Lagardère; we believe being in the "parent" is more advantageous given the other major shareholders and likely corporate possibilities in 2025, previously enunciated.

Dynasty Trust's top twenty positions as at 31 December 2024 as a percentage of net asset value are:

| | | | |
|---|---|---|---|
| Compagnie de L'Odet | 5.52% | MFF Capital Investments | 3.06% |
| Lagardère | 3.55% | Magellan Financial Group | 3.05% |
| Virtu Financial | 3.31% | Société Fermière du Casino (Cannes) | 3.04% |
| Hong Kong and Shanghai Hotels | 3.28% | Robertet | 2.96% |
| Bolloré | 3.22% | Sportradar AG | 2.93% |
| Viel et Cie | 3.22% | Senvest Capital | 2.90% |
| HAL Trust | 3.13% | Canadian General Investments | 2.85% |
| E-L Financial Corp | 3.11% | Fairfax Financial Holdings | 2.82% |
| Catapult International | 3.10% | First Pacific Company | 2.74% |
| Avolta | 3.07% | Fairfax India Holdings | 2.70% |

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At quarter end, we retain around a 2% cash weighting. This report features commentary on our 2024 calendar year outcome, a small feature on why we favour champagne – specifically **Laurent Perrier** over other beverage company exposures, despite the latter's calamitous year of share price declines and a detailed look at **Viel et Cie**, a little known financial holding company.

### 2024: A quick recap

Being Australian domiciled, Dynasty Trust operates to an Australian fiscal year ending in June; return fees are accrued during the year but are assessed and paid out at that time. However, the majority of global funds operate to a calendar year outcome, leading us to present the following assessment.

Seven securities added positive contributions of over 1% to Dynasty Trust from their dates of acquisition:

| | **bp contrib** | **2024 gain†** | **Comment** |
|---|---|---|---|
| Catapult International | 432 | 181% | Strong revenue growth reaffirmed; increased penetration of US college markets; free cash flow cross-over |
| Virtu Financial | 212 | 75% | Increased volumes and volatility; new crypto markets |
| Sportradar | 124 | 59% | Beneficial timing of purchase followed by upgraded earnings as business model proven |
| MFF Capital Invs | 117 | 52% | 41% portfolio return plus 7% decrease in discount to NAV |
| Softbank Group Corp | 114 | 52% | Acquired at 60% discount to NAV in February; benefitted from ARM Holdings IPO and gain |
| D'Ieteren Group | 101 | 35% | Capital management initiative following strong business performance |
| Harworth Group PLC | 101 | 39% | Two significant land sale transactions during the year reaffirm NAV and finance future developments |

† stock price gain over full year NOT our holding period

Five securities individually stripped away over 0.40% from our return over 2024, as follows:

| | **bp contrib** | **2024 gain†** | **Comment** |
|---|---|---|---|
| Ocado PLC | -145 | -59% | Uncertainty over M&S retail venture strategy despite improving results |
| TFF Group | -86 | -36% | Decline in demand from global whisky customers |
| Swatch Group | -63 | -25% | Sharp decline in revenue and earnings from China exposure |
| Occidental Petroleum | -46 | -18% | Oil price sensitivities |
| Ashmore Group PLC | -44 | -26% | Ongoing AuM declines & higher variable costs crimp profit |

† stock price loss over full year NOT our holding period

Since Dynasty Trust is not benchmarked to an index, we have no adherence to conventional industry exposure measures; however, from a risk management perspective we are careful not to plough too deeply into highly correlated exposures. By investing in family controlled entities, there is a particularly seductive temptation to herd into specific "micro" industries, because many of the key entities are multi-generational empires.

We have been reticent to **significantly** embrace the value investor traps of 2024: luxury, alcohol, automotive, conventional media, and branded consumer goods, where family control is prevalent. We have not emerged unscathed with Swatch Group (known knowns of the taciturn Hayek family that we are happy to wear in moderation) and Christian Dior both being negative contributors.

**Waiting for Vincent is not a "one-day" event**

About five years ago, I attended a fascinating investment conference in the USA focused on "Oddball Stocks", mainly thinly traded "pink-sheet" stocks with presentations by some full-time investment professionals and other highly experienced personal investors. It was a wonderful grounding for the type of situations we encounter in the fully public markets in controlled entities. The concept of "one-day" stocks was introduced: one day, something will happen. They are problematic because you simply don't know when the "one day" is going to be absent material non-public information. The investment return (y-axis) versus time (x-axis) graph is essentially a rotated "L" or ⅃ and you are either positioned – or not. If not, the opportunity has usually gone; there are rarely re-runs or sequels and there can be a significant opportunity cost or explicit time value of money impost.

We recently attended a virtual conference of European holding/investment companies, predominantly family controlled, which reinforced this element. We saw numerous companies with a strong core business who insisted on diversifying investments into minority stakes of companies in which they had no real competitive advantage and insight, nor in many cases, the size of investment team to do so. These stocks all trade, not at 40% discounts to reasonably assessed NAV but 50-60%.

With one exception, because of the strong operating cash flow from its underlying businesses- HAL Trust – we are not invested in these types of companies.

Our largest single thematic exposure through 2024 has been to "Bolloré" via the company, its parent Financière de L'Odet, Lagardère and Vivendi, the latter of which has split into three newco's: Canal+, Havas, Louis Hachette Group and "RemainCo". Due to respectable timing of our purchases , the group has contributed 0.75% to overall return in 2024. That is well below wider equity indices (given our exposure) but when you consider that during the year:

- Odet has acquired over 20million shares in Bolloré during 2024 (over 4% of the effective free float);
- Purchases of Odet by Vincent Bolloré entities increased his relevant interest to 93% (6 August 2024) setting up the conditions for a squeeze out offer;
- Bolloré has made two buyout offers for the three remaining Rivaud subsidiaries having merged two others;
- Vivendi/LHG has moved to 71% of Lagardère from 60% at the start of the year;
- Vivendi/Canal+ has made a takeover offer for South African based MultiChoice; and
- Vivendi has performed its four-way corporate split 3-4 months ahead of schedule; so

we view the relative lack of share price action in 2024 as merely setting up investors in the group for gratification in 2025 or 2026.

**Financial Exposures**:

One of the overt aspects of investing in controlled companies is the acceptance that your universe is "underweight" financial securities, in particular, banks. Whilst there are some "controlled" banks in emerging markets – mainly by a parent in a developed market -the analytical and economic risk required to be absorbed is significant. In any event, numerous "controllers" are effectively central Government, whose historic behaviour has been to obfuscate delinquent loan exposures. This has potentially been to our disadvantage through 2024, since one of the glowing global sectors in high return equity markets has been "financials". The MSCI World Financial index, covering 236 securities across the globe has produced at total return of 27.4% in 2024, 8% above the global benchmark.

The more attractive universe of controlled financial companies is found in funds and asset management, investment banking and occasionally insurance. In a strong return environment, these types of companies are hardly laggards, exhibiting some level of "beta" to the environment.

At 31 December 2024, we hold exposures to six financial businesses, all of which have recorded total returns of over 20% during 2024, and all but two of which (Fairfax Financial, Viel et Cie) we have owned for the full year.

| | LOC 31/12/23 | LOC 31/12/24 | % return† | Comment |
|---|---|---|---|---|
| **Businesses** | | | | |
| Virtu Financial | 20.26 | 35.68 | 80.8 | Liquidity provider, single digit P/E, liberalisation & crypto/volume benefit |
| Fairfax Financial | 1222 | 2000 | 64.9 | Strong reinsurance result + locked in income returns |
| E-L Financial | 1048 | 1325 | 33.6 | Strong insurance result + equity exposures |
| Viel et Cie | 8.50 | 11.50 | 35.3 | See below |
| Magellan Financial | 9.28 | 11.12 | 26.8 | Core funds business recovery + Barrenjoey holding + new initiatives |
| Flow Traders | 17.96 | 21.56 | 20.9 | Liquidity provider, increased volumes & capital realignment |
| **Stock Owners** | | | | |
| MFF Capital Invs | 3.10 | 4.68 | 55.2 | NAV + 39% + discount closure |
| Economic Invest. Trust | 135.50 | 164.00 | 29.0 | Play on E-L Financial |
| Canadian & General | 34.73 | 40.48 | 19.4 | NAV +31% but discount widens |
| Senvest Capital | 310 | 380 | 22.6 | Small cap underperformance |

† including dividends

We have retained a portfolio exposure of over 20% all year to these ten financial and investment companies; at year end, it was ~28.5%. In each case, despite strong share price performance, we see fundamental reasons to retain the shares.

We believe that financial markets are likely to be very volatile in 2025, given a new radical US administration subject to malign influences from technology entrepreneurs and wealthy investors, as well as underlying bizarre and unpredictable policy decisions. Superimposing these factors onto a burdensome US Government debt load, probable slowing economy, high equity prices in certain areas and excessive speculation seen in crypto markets, suggests a promising outlook for liquidity providers across all asset classes. Hence, we are happy to retain all three companies given P/E's around 12x for the group.

In 2024, the strong performance of our financial exposures has been a counterpoint to some of the **very patient** capital we have invested in companies where we are aware the underlying value of the shares is well ahead of the prevailing market price, but where an **obvious** short-term catalyst for this extraction may not exist. At end December 2024, we would view stocks fitting this description as cumulatively totalling ~9.5% of the portfolio – only one-third of the financial exposures.

During 2025, we will continue to carefully examine the benefit of this trade off in light of financial market performance, given it effectively amounts to a "beta averaging" exercise.

**Alcohol: making the case for champagne and Laurent Perrier**

We currently hold one "alcohol" stock – Laurent Perrier – though held exposures to the sector through the barrel company TFF Group and LVMH's sprits/champagne business via Christian Dior.

Controlled companies represent significant publicly listed entities in the space, nurturing brands from the eighteenth and nineteenth century with great care; however, over the past three years, they have been awful investments failing from a combination of slow-negative volume growth, profit declines as marketing expense has been held up and inflationary aspects along the supply chain unable to be fully passed to consumers.

Where cost increases have been recouped from the consumer in pricing, that has been reflected by volume declines. In our view, from an equity investor's viewpoint in these securities, it's a nastier combination of derating from hefty multiples of elevated earnings and brand erosion, which has been rammed home in 2024 – <u>three quarters of the average stock decline of over 42% in three years has come in the past year</u> as lack of organic growth has been bitten hard against an inflationary environment. Brand erosion has come in many ways - new entrants from artisanal distilleries (vodka, gin, whisky) – and the influence of megastar modern brand ambassadors. The strident belief that brands are worth SO much should have been obvious from change in the wine industry where 20–30-year-old under-supported brands with no compelling vine to bottle provenance are worth nothing. The alcohol market is an open marketplace.

Six selected family-controlled alcohol companies are illustrated in the table below, with salient statistics:

| €millions | Market Cap | Net debt | Controller | control % | organic rev Δ this year | Marketing spend | Marketing/ sales | Forward P/E | 1 year return | 3 year return (%) not pa |
|---|---|---|---|---|---|---|---|---|---|---|
| ABI † | 96,075 | 72,537 | Stichting Anheuser Busch InBev Invs | 37.0% | 2.5% | 6,882 | 12% | 14.1x | -16.6% | -9.0% |
| BF.B | 17,618 | 2,552 | Brown family | 67% voting (24% econ) | 0.0% | 521 | 10% | 21.6x | -32.7% | -44.8% |
| CPR.MI | 7,295 | 1,815 | Garavoglia family | 51.6% | 2.1% | 487 | 16% | 19.5x | -40.6% | -52.7% |
| HEIO | 16,463 | 16,270 | Heineken family | 53.2% | 5.1% | 2,940 | 8% | 12.2x | -23.9% | -28.5% |
| RI.PA | 27,518 | 10,503 | Ricard family | 21% voting (14% econ) | -5.9% | 1,872 | 16% | 14.5x | -31.9% | -48.7% |
| RCO.PA | 3,054 | 644 | Hériard-Dubreuil family | 70.5% voting 56.4% (econ) | -15.4% | 227 | 21% | 22.8x | -48.6% | -72.5% |
| ABI & BF.B converted at €1=US$1.04 | | | | | | | | | | |
| † Stichting Anheuser Busch InBev Invs combines Vndamme, de Mévius, and de Spoelberch families + 3G Capital | | | | | | | | | | |

Remy Cointreau is the ultimate example of investor misjudgement in the sector. The company's EPS doubled from 2020-21 (March year end) to 2022-23 but investors' anticipation of ongoing pricing power saw the shares peak at around 50x forward earnings in December 2021. Consensus forecast earnings this year of €2.50 are below those of 2016 despite amazing levels of marketing spend averaging over 21% of sales in recent years. Fact is, cognac is not a mainstream spirit for younger folks and the acquired spirit brands are too small in context to make a difference.

Given ongoing trends within the beverage industry, and the pricing of the relevant securities, none of these controlled entities has yet stimulated our interest to invest.

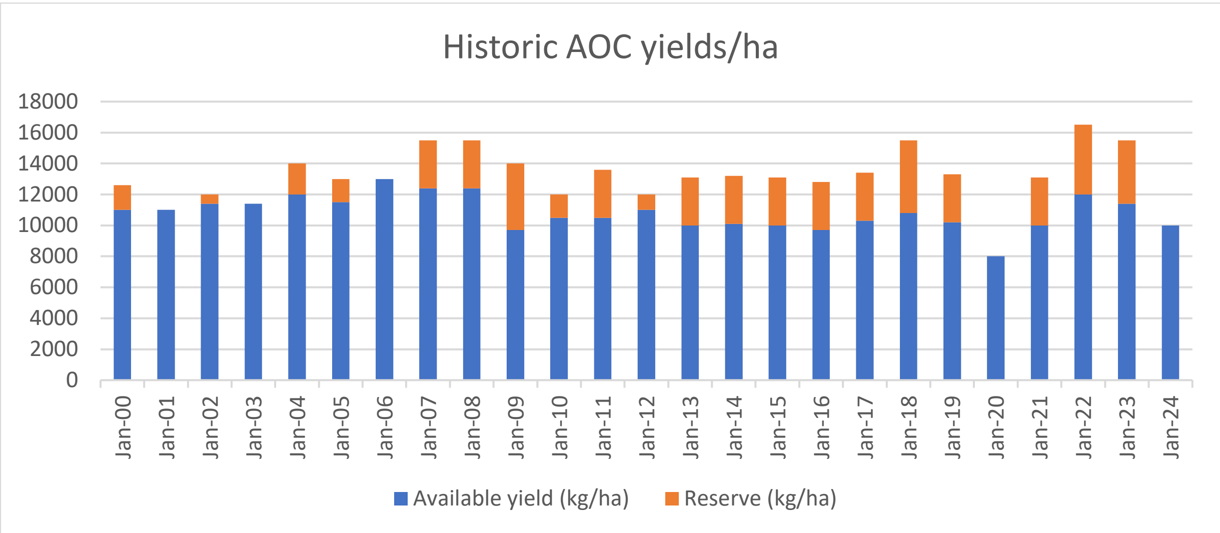
*Why Champagne might be different*

Champagne is the epitome of France. Defined stratas of "luxury" within the confines of a very tightly regulated market. The industry possesses some of the desirable economics of a typical luxury market but the three publicly listed pure champagne houses - all family controlled - in our opinion, trade at throw-away valuations. They are an interesting contrast to the wider beverage stock category whilst sharing some of their negative trends. If you figure that Gen-Z may not be much interested in cognac, but the whole generational spectrum enjoys "bubbles", then in our opinion, any negative trends in the champagne market will be cyclical and have an authority to assist in ironing them out. Champagne stocks trade at half or less of the price multiples of beverage companies, and stunningly **Lanson and Laurent Perrier have no/minimal brand value priced into their shares** (accepting you have to take inventory risk). It's an interesting poser, beyond the scope of this report, as to why beverage stocks won't converge to champagne stock multiples.

Champagne is exclusively derived from the 319 villages (crus) in the designated area in north-eastern France adjacent to the Ardennes. The designated area comprises 34,300 hectares and every aspect of production, yields, designation is regulated by the Comité Champagne, notably the relationship between grape growers and production houses.

Aside from long term growth and sustainability, the Comité sets a maximum yield per hectare target each year, which makes the arithmetic from an investment standpoint extraordinarily transparent. In the 2024 year, the Comité set a reduced yield of 10t/hectare (10,000 kg/ha). The Comité are acknowledging global beverage trends and are sensibly restricting supply, after the heady levels of 2021 and 2022. On average 1t of grapes produces 625litres of champagne through the multi-stage process providing for an output of ~286million (750ml) bottles. At an average price of just over €21.40 (before taxes), the industry is therefore sized at around €6.1-6.2billion in 2024.

The smoothing impact of yield management is illustrated in the chart below:



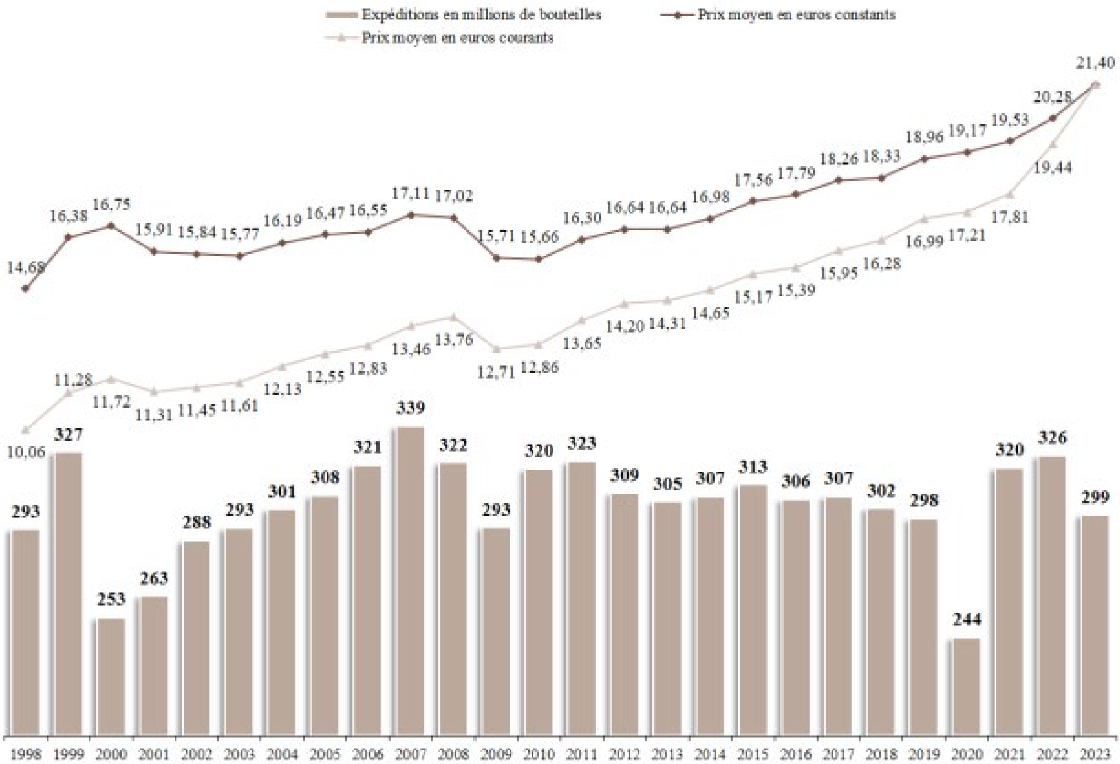
The industry is dominated by LVMH with its five leading brands – Veuve Cliquot, Moet et Chandon, Dom Pérignon, Krug and Ruinart – which account for some 66million bottles or 22% of the industry by volume. Pernod Ricard own two significant brands – Perrier Jouet and GH Mumm – whilst there are three publicly listed, but family controlled concerns – Laurent Perrier, Lanson BCC and Vranken Pommery – which we discuss below. The privately owned Louis Roederer rounds out the Top 6 champagne houses.

Around one-third of volume is attributable to medium sized producers, with well known brand names all of whom are privately owned – Heidsieck, Taittinger, Bollinger and Billiecart-Salmon.

Shown clearly in the chart below, because of a defined restricted area and yield control, champagne is a market with effectively no volume growth. Bottle sales in 2022 were the highest in fifteen years but still below the peak of 339million bottles in 2007. Around 42% of the market is domestic (France) with the US and UK each accounting for 15% of the export market. Japan and other Asian arenas are the major growth (5-7% LT average) markets. 2023 was actually a normal year with the long-term average of 300million bottles having been materially surpassed in 2021 and 2022 post the COVID disruption of 2020.

We can make reasonable assessments of valuation based on markets shares and per bottle pricing based on a market of 300million bottles of "mid-cycle" sales; the 2024 year will be below this.

**Champagne sales by million bottles, average price at constant and current prices**




Source: Laurent Perrier Universal Registration Document 2023

Laurent Perrier (LPE.PA) is French listed (since 1999) and controlled since 1939 by the deNonancourt family. Our preference for this business within the sector rests on a number of aspects:

- Laurent Perrier is sizeable – around 11-12million bottles per annum at peak representing some 3.6% of the industry;
- Exports make up a far greater percentage of sales than the cohort group: ~87% versus the cohort in the high 50's percent;
- Whilst wary of "premiumisation" strategies in the beverage industry – they are too prevalent and consumers have got sticker shock and reduced consumption – given the restricted and regulated nature of the champagne market, providing product quality is reflective of pricing, this strategy has appeal;
- Laurent Perrier has shown genuine skill in this area with close to 45% of sales being their own "high-end" definition;
- This is also reflective of management/family being prepared to sacrifice volume in favour of pricing maintenance;
- The combination of 87% exports with premiumisation has driven gross margins up significantly to near 63% in the last full year; first half The strategy is supported by two aspects of LPE: blending and marketing spend;
- Marketing spend is ~€33million per annum or around 12% of sales which whilst not comparable to the higher end of the liquor market, is, in our opinion, contextually sensible; and
- LPE is financially more conservative than its two listed company cohorts, with debt/EV being far lower than either, providing some protection in this lower-cycle period for the industry without sacrificing inventory levels;

Comparative 2024 statistics for the three listed pure champagne companies are given below, providing a backdrop to our preference for holding Laurent Perrier as a preferred exposure:

| **FY2024 account estimates** | **Lanson-BCC** | | **Laurent Perrier** | | **Vranken Pommery** | |
|---|---|---|---|---|---|---|
| (€ million) | **(ALLEN.PA)** | | **(LPE.PA)** | | **(VRAP.PA)** | |
| Controllers (capital, not votes) | Paillard, Baijot, Roques-Boizel families (87%) | | De Nonancourt family (65%) | | Paul-Francois Vranken (71%) | |
| shares issued & price | 6,853,514 | € 35.00 | 5,945,861 | € 103.50 | 8,937,085 | € 13.00 |
| capitalisation & net debt | 240 | 534 | 615 | 242 | 116 | 732 |
| Enterprise value & est turnover 2024 | 774 | 270 | 857 | 282 | 848 | 328 |
| Inventory & years | 581 | 7.8 | 705 | 6.2 | 668 | 3.4 |
| Gross margin (%) & EBIT (E2024) | 57.5% | 55 | 59.7% | 79 | 40.40% | 40 |
| EV/EBIT & P/E | 13.9x | 8.0x | 10.8x | 11.8x | 21.2x | 21.0x |

**Liquidity providers: acceptance at last?**

2024 was a banner year for quoted liquidity providers, either market-making focused on equities and ETP's (Virtu Financial VIRT, Flow Traders FLOW.AS) or inter-dealer brokers facilitating OTC trades across asset classes (BGC Group[1] BGC, TP ICAP TCAP.L and Tradition CFT.SW).

For equity market makers, arguably the best may yet be to come with their Q4 2024 reportings; SIFMA figures[2] allied to statistics provided by Virtu Financial[3] suggest that spreads widened sharply in October

[1] Effectively successor company to Cantor Fitzgerald, vastly diminished by the loss of 658 employees in the World Trade Center terrorist attacks of September 11, 2001.
[2] SIFMA Research, December 2024
[3] Virtu Financial: "Global Market Structure" November 2024 US Report

2024, were maintained at higher levels on much higher volumes in November (election month) and values traded in December were maintained at over US$670billion per day on US equity exchanges. Moreover, over the course of 2024, average daily US equity values traded were just over $607billion, up 18% on 2023.

Higher volumes, higher implied volatility but manifested in wider spreads over the second half of 2024 have made for an exceptional environment for "market-makers". However, even for the agency-based businesses, the volume environment across asset classes, especially accompanied by late year volatility in interest rates, has also been most conducive.

We <u>sense</u> increased investor acceptance of liquidity provision and market making within public companies; the performance of Virtu and Flow Traders (in the second half of the year) and increased public disclosures and publicity regarding Citadel and Jane Street's market making activities (as well as their hedge fund performances) is stimulating interest. Many of the public entities traded at mid-single digit P/E's at various times early in 2024.

For some of the securities – notably Virtu and Tradition - the shares have traded at record highs, with strong earnings **<u>and</u>** multiple expansion over 2024. Under normal circumstances, this would tend to flag a cyclical peak in activity for these types of companies. So why are we still invested?

There are clear structural reasons, with increased democratisation of trading, notably in derivatives markets, some of which is inevitably the results of record highs in equity markets, but accompanied by technological change and vastly increased access to low cost research and ideas. The narrow nature of gains in US equities, suggests 2025 may see a widening interest in "attractive" securities.
Moreover, <u>if worryingly consensus</u>, we view the incoming administration of the 47th President of the USA as being more chaotic, volatile and unpredictable in terms of its trading relations with other countries as well as its relations with internal constituents in specific industries. With stock prices at highish valuations and hefty Government debt loads, the precursors for volatility across all asset classes seem firmly in place.

Hence, broadening out our exposure from equities/ETF biased traders to those across all asset classes, especially fixed interest, at similarly low multiples, makes logical sense. We have choices, given that control structures exist in four of the five companies (not TP ICAP).

Historically, we have had a predilection to companies earning an above average return on equity, to offset the potential risks within the business; many companies in the broader area have made acquisitions of competitors which have failed on culture/integration ground at shareholders' expense.

Comparative statistics for the five quoted inter-broker dealers and market makers, converted to US$, are given below:

| | | | | | |
|---|---|---|---|---|---|
| | $ | | $ | | $ |
| conversion rate | 1.105 | | 1.250 | | 1.040 |
| **US$million** | **CFT.SW** | **BGC** | **TCAP.L** | **VIRT** | **FLOW.AS** |
| Market Capitalisation | 1,636 | 4,349 | 2,427 | 5,729 | 966 |
| Equity base | 482 | 885 | 2,585 | 1,149 | 702 |
| LTM net ROE | 25.5% | 13.8% | 11.3% | 27.6% | 16.2% |
| P/E EST 2025 | 12.3x | 8.6x | 8.1x | 11.3x | 9.4x |
| 2024 share price Δ | 56.4% | 25.5% | 32.1% | 76.1% | 20.0% |

Estimate source: tikr.com; calculations by East 72 Management P/L

**Viel et Cie: Undervalued exposure to liquidity provision**

Viel et Cie (VIL.PA) is a €724million market capitalised[4] French listed financial holding company trading at ~54% discount to our assessment of the value of its three component parts (see concluding table). This is partly accounted for by the tight ownership of the company with the interests of Patrick Combes, the driving force behind VIL since 1979, holding 70% of the shares (74.8% excluding treasury stock), 6.6% of the shares being in treasury and three other long standing stable shareholders leaving only around 7.2million shares – 11.4% of shares – as a free float.

Some two-thirds of the value is accounted for by the controlling 71% holding of Compagnie Financière Tradition (CFT.SW) (Tradition) the Swiss-listed inter-dealer broker, the third largest of a near oligopoly global business. Over the past year, VIL's shares have failed to keep pace with the appreciation of Tradition's stock price; the attributable value of VIL's stake in Tradition has increased by ~€400million versus VIL's own market capitalisation, despite a 35% share price gain, only increasing by ~€190million. Furthermore, there is significant value in the 83% holding of French listed BourseDirect (BSD.PA) but especially in the 40% holding of Swiss Life Gestion Privée, where profitability has significantly increased over the past three years making the carrying value of €71million quite farcical.

The situation in VIL is especially appealing as there would appear to be limited logic for such a control discount where the ownership percentages are so large. There is obvious scope to condense the group at some stage, given that the ultimate controller is now 72years old[5].
VIL was established in the 1920's as a broker for the French money market and converted to a public company in 1962. However, the company was largely moribund for most of its early period as a public entity, and in 1979 a controlling shareholding was acquired by the then 27year-old Patrick Combes.

The parallels with Vincent Bolloré are interesting; not only are M. Combes and Bolloré the same age, but both acquired core assets within a tightly controlled holding company – Viel and Odet – but also acquired core assets – Tradition and what is now Bolloré plus the Rivaud structure – extremely cheaply under a distressed situation.

VIL acquired a 61% shareholding of Tradition in 1996 from the administrators of the bankrupt Banque Pallas Stern (BPS) a French bank who had made poor real estate loans; Tradition was already publicly quoted, from 1973, but the shares were suspended for a year whilst BPS administration was worked out. VIL acquired the stake at the average monthly price of Tradition prior to suspension but was also required to guarantee BSP's remaining debts to Tradition of ~CHF25million.

**Tradition**

Tradition is the smallest of three major global inter-dealer brokers facilitating liquidity and price discovery across a range of over-the-counter markets in fixed interest, foreign exchange, rates equity securities and commodities, alongside BGC Group and TP ICAP.

The following table tabulates the last four full calendar years of revenue from the core business, excluding insurance (BGC until 2020) and excluding TP-ICAP's Liquidnet agency equity matching feature; all amounts have been converted to CHFmillion at prevailing exchange rates:

[4] Excluding treasury stock
[5] Mr. Combes is four months younger than Vincent Bolloré

**I-DB's: comparative brokerage & commission turnover by activity**

| | CHFmn | FX & FIC | Secs | Commods | Total | FX & FIC | Secs | Commods |
|---|---|---|---|---|---|---|---|---|
| **CFT** | Dec-20 | 410.0 | 329.6 | 207.2 | 946.8 | 43% | 35% | 22% |
| | Dec-21 | 419.2 | 299.5 | 198.3 | 917.0 | 46% | 33% | 22% |
| | Dec-22 | 462.0 | 327.2 | 205.5 | 994.7 | 46% | 33% | 21% |
| | Dec-23 | 435.5 | 329.0 | 258.0 | 1,022.5 | 43% | 32% | 25% |
| **TP ICAP** | Dec-20 | 1065.0 | 232.8 | 439.7 | 1737.5 | 61% | 13% | 25% |
| | Dec-21 | 998.6 | 262.4 | 429.6 | 1690.7 | 59% | 16% | 25% |
| | Dec-22 | 1165.8 | 288.5 | 453.9 | 1908.3 | 61% | 15% | 24% |
| | Dec-23 | 1148.4 | 272.4 | 526.5 | 1947.3 | 59% | 14% | 27% |
| **BGC** | Dec-20 | 1,042.0 | 223.2 | 256.4 | 1,521.6 | 68% | 15% | 17% |
| | Dec-21 | 968.1 | 209.0 | 250.1 | 1,427.2 | 68% | 15% | 18% |
| | Dec-22 | 1,063.3 | 222.5 | 276.7 | 1,562.6 | 68% | 14% | 18% |
| | Dec-23 | 1,118.6 | 218.7 | 357.1 | 1,694.4 | 66% | 13% | 21% |

The table shows that Tradition is just over half the size of TP-ICAP and 60% of BGC, but has a greater proportionate exposure to equity-type securities and to commodities. Whilst we have not incorporated 2024 figures – not yet released and we are aware Q4 2024 was significant, making estimation difficult, we believe Tradition's business mix would have been advantageous in the 2024 year, and may prove to be the case in 2025. We find Tradition to be more interesting than the two other IDB's insofar as it has a more transparent set of accounts with less share-based payments, and higher return on equity. Whilst the shares trade at higher multiples than the two cohorts, as we illustrate below, there is a significantly discounted entry methodology.

Tradition has been a spectacular investment for VIL, albeit developed by Patrick Combes. From a low point of CHF17.70 share (unadjusted for splits) in 1996, and a market capitalisation of under CHF22million, with minimal equity raisings (to employees) and prolific dividend payments, the market capitalisation has grown to CHF1,492million at 31 December 2024. An investment of CHF17,600 in 1996 would have produced cash dividends of CHF501,300 and an investment with a capital value of over CHF866,000[6].

As the table below illustrates, Tradition has <u>averaged</u> post tax ROE of 16.9% over a 27year period. However – **and we are very cognisant of this factor** – the company has had significant and lengthy periods of relatively quiet activity, notably 2010 through 2015, where ROE was in mid-single digits, far from compensating for risk. We are well aware that the current year will not only bring forth record profits but also an all-time high return on capital:

[6] 1,000 shares grown to 4,694 shares via stock splits and stock dividends

**Tradition: simplified long term return metrics**

| CHF mn | NPAT | book equity | tangible equity | TBV/share (unadj CHF) | price/BV y/end (x) | Net ROE |
|---|---|---|---|---|---|---|
| Dec-98 | 9.554 | 61.1 | 57.5 | 46.42 | 1.34 | 15.6% |
| Dec-99 | 16.707 | 83.2 | 78.5 | 61.87 | 2.93 | 20.1% |
| Dec-00 | 28.03 | 146.6 | 138.1 | 106.46 | 2.02 | 19.1% |
| Dec-01 | 46.716 | 189.1 | 171.0 | 64.48 | 2.71 | 24.7% |
| Dec-02 | 31.813 | 196.1 | 182.3 | 34.36 | 2.01 | 16.2% |
| Dec-03 | 38.354 | 202.4 | 176.5 | 32.68 | 3.60 | 18.9% |
| Dec-04 | 53.700 | 200.8 | 171.2 | 31.41 | 3.53 | 26.7% |
| Dec-05 | 28.466 | 214.8 | 184.1 | 33.67 | 3.98 | 13.3% |
| Dec-06 | 61.714 | 252.4 | 219.4 | 40.13 | 4.55 | 24.4% |
| Dec-07 | 84.63 | 291.8 | 254.2 | 45.44 | 4.47 | 29.0% |
| Dec-08 | 85.491 | 285.6 | 182.1 | 32.40 | 2.13 | 29.9% |
| Dec-09 | 64.971 | 345.1 | 255.2 | 41.64 | 2.96 | 18.8% |
| Dec-10 | 40.945 | 318.1 | 245.0 | 39.82 | 2.98 | 12.9% |
| Dec-11 | 20.923 | 307.5 | 230.2 | 37.23 | 1.88 | 6.8% |
| Dec-12 | 19.141 | 305.5 | 233.2 | 35.94 | 1.39 | 6.3% |
| Dec-13 | 15.457 | 282.0 | 233.5 | 34.73 | 1.40 | 5.5% |
| Dec-14 | 27.708 | 341.7 | 293.7 | 43.69 | 0.97 | 8.1% |
| Dec-15 | 40.456 | 356.8 | 309.3 | 43.92 | 1.51 | 11.3% |
| Dec-16 | 50.386 | 365.4 | 314.4 | 44.58 | 1.84 | 13.8% |
| Dec-17 | 46.378 | 382.9 | 327.8 | 45.59 | 2.09 | 12.1% |
| Dec-18 | 50.771 | 383.3 | 332.4 | 45.59 | 2.24 | 13.2% |
| Dec-19 | 52.323 | 396.9 | 350.1 | 47.14 | 2.13 | 13.2% |
| Dec-20 | 31.811 | 389.3 | 344.7 | 45.76 | 2.34 | 8.2% |
| Dec-21 | 65.263 | 407.5 | 364.8 | 47.84 | 2.18 | 16.0% |
| Dec-22 | 89.111 | 416.8 | 373.0 | 48.73 | 2.14 | 21.4% |
| Dec-23 | 94.419 | 405.1 | 354.9 | 45.81 | 2.58 | 23.3% |
| Dec-24† | 120 | 436.4 | 384.9 | 47.95 | 3.85 | 27.5% |

† estimates by East 72 Management P/L

**Bourse Direct (83%)**

Bourse Direct (BSD.PA) was established as an on-line French broker in 1996; the company listed as a public company in November 1999. VIL held a small minority stake which increased to majority control in May 2004 with the acquisition by BSD of VIL's own broking business, Capitol, in a share exchange on equivalent terms. This increased VIL's stake in BSD to 66% (17.8mn shares at the time).

In 2005 and 2006, BSD made further steps to becoming the largest on-line player in France through further acquisitions, notably ASB. 2006 was the last year of any significant stock issuance by the business, illustrating a trait of the VIL "group" reflecting a desirable parsimony with new equity. Through on market purchases and minor buy-backs, VIL's stake in BSD has crept up to 83% as at 30 June 2024.

BSD's profitability has sharply increased over the past three years because of higher interest rates providing a significant growth in net interest income on client balances – as with other direct access/online agency market participants. Based on the strong growth in H1 CY2024 (see table below), we expect BSD to earn around €20mn net of tax (at a 28% rate), equivalent to 37.8c per share. This places the shares at €4.35 on a P/E of 11.5x, which is sensible for a company where commissions are exhibiting slow growth, expenses are starting to climb – noting that personnel represent some 31% of costs as does "technology" which continues to be subject to cost inflation from exchanges as well as the wider economy.

**Bourse Direct: selected profit and loss statistics**

| €million | Dec-20 | Dec-21 | Dec-22 | H1 2023 | H2 2023 | Dec-23 | H1 2024 |
|---|---|---|---|---|---|---|---|
| Net interest | 3.912 | 3.465 | 5.764 | 13.45 | 16.168 | 29.618 | 19.629 |
| Net commissions | 33.873 | 33.96 | 33.774 | 15.565 | 14.217 | 29.782 | 15.571 |
| Other | 1.102 | 2.428 | 2.685 | 2.037 | 0.836 | 2.873 | 0.764 |
| TOTAL | 38.887 | 39.853 | 42.223 | 31.052 | 31.221 | 62.273 | 35.964 |
| Expenses | -26.374 | -27.24 | -31.436 | -17.926 | -19.16 | -37.086 | -20.271 |
| D&A | -2.643 | -2.591 | -2.912 | -1.584 | -1.647 | -3.231 | -1.718 |
| other | 0.173 | 0.121 | 0.118 | 0.202 | 0.02 | 0.222 | -0.198 |
| PRE TAX PROFIT | 9.697 | 9.901 | 7.757 | 11.34 | 10.394 | 21.734 | 14.173 |

**Swiss Life Gestion Privée (40%)**

VIL worked through a lengthy process in 2007 to acquire Banque Privée Fideuram Wargny from parent Banque Fideuram, finalised in August 2007. The parent had made significant financial provisions against the sale of the company, which has been available for sale for some two years resulting in significant loss of employees. VIL joined forces with Swiss Life, to merge the private management business with Swiss Life Banque, and absorb the brokerage operations into Tradition.

In exchange for the transition of the private management business, VIL became a 40% shareholder in Swiss Life Gestion Privée (SLGP). Over the past three years, profitability of the entity – over which VIL have **no management control** – has grown sharply as we can see from Swiss Life parent accounts; in the VIL accounts, contributions from associates also include the consolidation of CFT's associates and joint ventures, but the figures reconcile:

**Selected SLGP financials (CHF million)**

| CHFmn | Revenue | NPAT | VIL share | Net assets |
|---|---|---|---|---|
| 2015 | 83 | 8 | 3 | 87 |
| 2016 | 75 | 2 | 1 | 88 |
| 2017 | 105 | 7 | 3 | 103 |
| 2018 | 116 | 6 | 2 | 100 |
| 2019 | 94 | 7 | 3 | 102 |
| 2020 | 98 | 8 | 3 | 110 |
| 2021 | 139 | 15 | 6 | 115 |
| 2022 | 161 | 25 | 10 | 126 |
| H1 2023 | | 26.8 | 10.7 | |
| H2 2023 | | 20.8 | 8.3 | |
| 2023 | 244 | 47 | 19 | 144 |
| H1 2024 | | 32.2 | 12.9 | |

The 40% stake in SLGP is carried in VIL books at ~€71.2million (CHF68.5million), against VIL's share of net assets of CHF58million. On a 100% basis, SLGP looks to be earning NPAT of around CHF57million (€60million). At a 12x multiple, not unreasonable in this sector, this would imply a total value for SLGP of €720million, making VIL's 40% share worth some €288million.

We have no real idea why Swiss Life continue to pay away 40% of profits to a passive holder, when the business has developed enormously from the original transaction.

As part of any “clean up” of the VIL structure, we would expect this holding to be a centrepiece.

**VIL: Discount to real value of 54%**

A simple see-through value assessment of VIL as at 31 December 2024 can be made as follows:

| | | mn shares | price | € value (mn) |
|---|---|---|---|---|
| 71.7% | Compagnie Financière Tradition | 5.753 | CHF184.50 | 1,127 |
| 83.0% | Bourse Direct | 44.830 | €4.35 | 195 |
| 40% | Swiss Life Gestion Privee | Assessed value | | 288 |
| | **TOTAL** | | | **1,610** |
| | VIL.PA debt/liabilities | | | (21) |
| | **NET VALUE** | | | **1,589** |
| | **Per VIL share (62.976mn)** | **excludes 4.416mn treasury shares** | | **€25.23** |

At VIL.PA’s closing price of €11.50, the shares trade at a 54% discount to intrinsic see-through value, after adjustment for treasury stock, being 6.6% of capital. **We can re-engineer the equation to show an entry to Tradition at effective CHF45.60 per share, below book value, and at an effective P/E multiple of 3x estimates 2024 net profits of ~ CHF120million.**

Hence, our preferred exposure to the sector and the “Combes” group is through Viel et Cie.

**For further information:**
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