East 72 Dynasty Trust

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

ISIN AU0000368219 ABN 43 935 022 778

QUARTERLY REPORT #11: PERIOD TO 30 SEPTEMBER 2025 ©

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Performance and net asset value

Quarterly return†: 1.63% NET ASSET VALUE PER UNIT AT 30 SEPTEMBER 2025†: $1.3335
Rolling 12 months†: 19.28% Two years pa†: 17.44% Inception†: 39.94% (not per annum)

† after all ongoing and performance fees.

Andrew Brown is making two presentations at the Passive Investor Event in Dallas, TX hosted by Financial Journey and Keith Blackborg on October 23rd & 24th passiveinvestorevent.com

The Dynasty Trust NAV increased by a modest 1.6% in the September quarter. We are categoric that we will not keep pace with wider indices in markets where surplus liquidity chases short term ideas with minimal investment merit. Not surprisingly, when such behaviour became far more prevalent in September, the lags were greater. We also have no exposure to precious metal producers.

Of the three companies discussed in this quarterly, two have **stellar** long term track records. Both were negative contributors in the quarter as a result of a **further** de-rating of the respective company's share price relative to our estimate of its intrinsic value. In particular, the four exposures in the **Bolloré** group cost over 1.1% to NAV over the quarter. We show that Bolloré itself has suffered an effective €1.2billion de-rating versus our estimates of value over a twelve-month period, which we view as being symptomatic of the prevailing impatient environment. There are self-inflicted reasons why the company and its satellites are struggling for investor attention at present, but all are solvable. Likewise, the de-rating of **Exor** despite exemplary capital management is explainable, but extreme even when acknowledging more bearish scenarios for the impact of US tariffs on two of their most significant investee companies, Stellantis and CNHI.

As previously noted in monthly releases, we exited Catapult International, Sportradar, Harworth Group and Borr Drilling over the quarter. We added a small Australian company, DGL Group, which is a significant chemical distribution company, controlled by its CEO, Simon Henry. The company IPO'd at A$1 in mid-2021 and became a market-darling (amazingly) reaching over $4 by April 2022. This reflected a newfound ability for public-private arbitrage plus the benefit of being one of few Australian Adblue diesel additive suppliers during COVID (the product price increased six-fold). The FY2025 year saw profits (EBIT) some 60% below that peak FY22 peak year as the company suffered a degree of indigestion from acquisitions with duplicate CRM systems and a loss-making lead battery recycling facility which has now been closed. Established in 1999, DGL is a real founder-led business which has arguably struggled to make the transition to public company status. However, its industry positioning and selected entry barriers, cost outs and debt reduction suggest the shares at our acquisition price are price at below 10x P/E, 60% of tangible book, and EV/EBITDA below 5x.

The major (>30bp) absolute contributors in Australian dollars to quarterly return are tabulated below; as a guide only, the individual stock returns are in local currency for the actual period, not our holding period. Strength in the Australian dollar over the quarter reduced returns by ~80bp. (‡ September only):

Positive			Negative		
	contribution	return		contribution	return
Borr Drilling	80bp	47.3%	Virtu Financial	-92bp	-20.7%
Carlyle Group	70bp	22.0%	Novo Nordisk	-64bp	-21.6%
First Pacific Co.r	50bp	17.4%	Cie de L'Odet	-46bp	-8.6%
Viel et Cie	39bp	10.5%	Bolloré	-37bp	-9.6%
HAL Trust	38bp	11.7%	D'Ieteren Group	-36bp	-12.7%
DGL Group ‡	35bp	21.6%	Lagardère	-35bp	-8.4%

Dynasty Trust's top twenty positions as at 30 September 2025 as a percentage of net asset value are:

Viel et Cie	4.61%	Exor NV	3.15%
Avolta	4.19%	First Pacific Company	3.03%
Compagnie de L'Odet	4.13%	Avation PLC	3.00%
Carlyle Group	4.04%	Bolloré	2.92%
Lagardère	3.89%	Nelnet Inc	2.91%
Virtu Financial	3.89%	Douglas AG	2.79%
HAL Trust	3.59%	Vivendi	2.72%
E-L Financial Corp	3.45%	AKER BP ASA	2.62%
CK Hutchison	3.40%	MFF Investments	2.56%
Fairfax Financial Holdings	3.39%	BOC Aviation	2.54%

At quarter end, we retained around a 6% net cash weighting after all accruals.

Value traps versus "loss reserving" and risk dispersion

The three securities we discuss below – Bolloré (-21% in CY2025), Exor (-7%) and Swatch Group (-9.3%)-are hardly disasters but are regarded by some as **value traps**; we look at them more as "loss reserving" (see below for context) offering scope for future performance. All are run by patriarchs with a decidedly different and often contrarian approach. That's why we want to set the scene by discussing value traps versus short term issues.

Our analytical methods unreservedly focus on "valuation" – ascribing a price range within which we are happy to purchase equity securities of the desired controlled company, based on our outlook. Most accomplished value investing practitioners tend to set the bar "low" with conservative assumptions to derive Klarman's revered "margin of safety" between price paid and value derived[1]. But in its 257 pages, the word "trap" doesn't appear once (we used AI to check…..)

Every forward-looking investor must accept the scope for error as industries and technologies change, management make mistakes, and uncontrollable factors unravel the assumptions behind valuation. Of course, the most frustrating of all "mistakes" is where the analysis of the underlying business is correct but never gets reflected in the equity price.

Unlike many others, we have two definitions of a value trap, which don't necessarily coalesce:

- The backwards looking analysis; and
- Forward looking capital entrapment or misuse

The traditional definition of a value trap comes about from screening by value investors, using backwards looking metrics designed to isolate an equity as "cheap". Low price/earnings ratio, high yield, low price to book value. These illusory metrics are usually accompanied by declining business fundamentals, in which situation, book value typically is overstated, with earnings and dividends unmaintainable. Investors in "backwards" looking value traps are often seeking a turnaround solution, which in the vast majority of cases, fails to materialise.

In our view, that's not really a value trap – it's erroneous analysis of the company's (or industry's) fundamentals. We stress that we are trying to build "a portfolio of quality businesses, under the aegis of controlling shareholders". IF our analysis is at least partly correct, we would be screening out the

[1] Ironically given its "out of print" status, purchase of a $1500 second- hand copy of the "Margin of Safety" tomb by Seth Klarman arguably fails its cover title miserably. Or does it? A good essay topic for a prospective intern to illustrate their analytical skills.

traditional dying or declining businesses. We know numerous excellent investors who are largely agnostic about business quality because their analysis focuses on the ability to realise assets in a near-immediate time frame and yield high internal rates of return. Duration is their enemy, which is why excluding exceptional circumstances, because of our preference for compounding, we don't have much interest for those types of situations. However, the real area of interrogation comes from understanding not just the price-value gap but how the differential will be at least partially eliminated.

Our opinion that value traps represent an ongoing portfolio risk has been enunciated every time we present. **Our definition of a value trap is a security which trades at a significant discount to intrinsic value but where a controller has non-financial aspirations which prohibit this value being realised for the benefit of other shareholders, and where the intrinsic value may consequently dissipate.**

Such controllers have alternative aspirations such as:

- An emotional attachment to a real asset - usually a historic property (J.W.Mays is a classic in this respect with its Brooklyn building) – or business;
- Being happy to earn below reasonable returns from the assets in pursuit of a lifestyle company (MAYS again, perhaps); or
- Derivation of power, influence and status – usually seen in media and sports.

There are numerous examples in media of controllers failing to liberate once strong cash flow for shareholder benefit and then seeing those rivers of gold dissipate as technological change diverts them rather than forming a shareholder tributary. The easiest illustration -conceptually and numerically - of a value trap is a listed sports team[2].

At the product level, sports teams are amongst the most enviable businesses. The customers are incredibly loyal, even when the product delivered is highly defective but can't be returned, and when the price of said product rises inexorably every year. With those sentiments in mind, let's have quick look at Manchester United PLC (NYSE: MANU) the famous English Premier League team, controlled by the US based Glazer family, which has an equity market capitalisation of £2.086billion, and net debt of £640million, excluding commitments to pay for purchased players.

Over the past eight years, the club has endured COVID-reduced attendances, a change of controlling personnel on the football side, and won only two trophies – both domestic English knock-out competitions (League Cup 2022/23 and FA Cup 2023/24). The team has been in the lucrative UEFA Champions League in five of the eight years but will not be in **any** UEFA competition in the year to 30 June 2026.

Manchester United PLC: selected financial statistics

£million y/end June	Revenue	Op Cash flow	Capex	Net player spend	PRE FINANCING CASH FLOW
2018	589.8	119.6	(13.2)	(108.1)	(1.7)
2019	627.2	263.6	(13.7)	(135.2)	114.7
2020	509.0	17.6	(21.3)	(85.1)	(88.8)
2021	494.1	137.8	(6.2)	(133.6)	(2.0)
2022	583.2	121.7	(8.3)	(191.6)	(78.2)
2023	648.4	128.9	(15.6)	(124.6)	(11.3)
2024	661.8	117.5	(17.5)	(153.7)	(53.7)
2025	666.5	107.5	(44.7)	(229.9)	(167.1)

[2] I thoroughly commend Asian Century Stocks (Michael Fritzell) 21 September 2025 report "How to avoid value traps in Asia" which is not behind a paywall, on eight specific characteristics to avoid in Asian equities with a family controller.

The table above strips away the financing structure which would otherwise obscure the analysis, and tax paid has not been a consideration, so we can simply look at operating cash flow, less capex (facilities) less payments for the acquisition of player contracts minus the proceeds from player contract sales.

The public company, despite continuing to have lucrative broadcasting contracts and sponsorship deals, has lived in a fantasy-world with:

- high costs - OCF doesn't grow with revenue due to high wages;
- low/no spend on the customer experience or player facility seen in low capex which now has to play catch-up with a recent £50million training ground overhaul; and
- outlandish net spend on transfer fees which has yielded no on-field success.

As a result, shares in MANU are below their levels of early 2013, net debt is up by £185million (excluding commitments) and market capitalisation has grown only because of new share issues.

Readers who have followed our progress over nearly three years will recall that in mid-2023, we held a position in MANU when the financials looked far better than they do now **AND** it was clear there would be a contest for control of the company being run by the Florida-based controllers. Unfortunately, of course, rather than accepting the alleged highest 100% bid from Sheikh Jassim[3], they took the option to hold on and accept new equity from Sir Jim Ratcliffe. Ratcliffe ended up acquiring existing stock (25% of each holders' shares) and new investment at US$33/share or a £4.5billion valuation of MANU equity - over twice the prevailing pricing of ~£2.1billion. The Glazers publicly said they believed the club valuation could double to £10billion over time. Never say never….

Of all value traps, MANU is the most difficult to rationally explain since there appears little benefit to the controllers, even in an emotional sense, since, in the author's view, the majority of club supporters don't especially like the Glazers given the recent track record. Emotion may dictate an even greater price than that allegedly offered for full control by Sheikh Jassim but given the capital expenditure required – on stadia and players – as well as luck to return to the position just two years ago – the rejection of such a hefty price was bizarre at the time and the more so now.

In this context, where we hold seemingly inert securities trading at cheap valuations, the benefits of holding them and sensible portfolio diversification are often not seen until equity markets hit a speed bump. US money printing, deficit funding and a belief that AI transformation is a panacea for everything despite near-term dilution of return on invested capital have created an environment where liquidity is abundant. For the time being. In such a milieu, capital inevitably flows to areas providing substandard future returns – investors just demand it be put to work. The lust for immediate returns ensures that many securities trading at enormous discounts to intrinsic value are discarded as having "no catalyst" or ones where a few months hence is perceived as "too far off".

Of course, some companies don't possess redeeming features and are best avoided by all.

One of the advantages of having an insurance background is direct knowledge of the benefits of conservative loss reserving. Not earning outsized returns at times of high premiums and seemingly low loss ratios but "smoothing" and stacking profit away for a "rainy day". It is assuring at times like these that our whole portfolio doesn't trade at multi-year highs and that we have a number of sleepers which have not contributed – nor meaningfully detracted – from absolute return. These holdings might be assessed as our "surplus loss reserves" which will contribute to future return at a time when equity market returns may be more problematic than at present.

[3] Allegedly around £5billion or US$37/share

Bolloré: €1.2billion of "sentiment" de-rating over twelve months

Vincent Bolloré must be thinking that "2025 is not a year on which he shall look back with undiluted pleasure. In the words of one of his more sympathetic correspondents, it has turned out to be an *Annus Horribilis*"[4]

A year ago (QR#7) we assessed the corporate structure of Bolloré to establish the *bona fides* of rolling the self-control loop up at least two tiers and its impact on family control. At the time. Bolloré shares were trading just below €6 with the Vivendi split still to come, but the full acquisition of the Rivaud companies[5] under way.

Since then:

- the Vivendi split has taken place but reconstituting the company by adding the trading prices of the spun-out vehicles Canal+, Louis Hachette Group and Havas to Vivendi gives a "value" of €8.91 against €10.30 a year ago – a "diminution" worth about €420million (€0.38 per Bolloré share[6])
- the expropriation of the Rivaud entities was cancelled amidst regulatory action after issues with the independence of one expert and the methodologies used by their replacement;
- Successful litigation has taken place against Bolloré forcing an AMF mandated takeover offer[7] for the "minority" 70% of Vivendi since Bolloré has been deemed to have controlled Vivendi at the time of its split; Bolloré is appealing this decision in the French Supreme Court in late November 2025; and
- Left wing party support required to maintain the ruling French Government are pushing for a 2%pa wealth tax which is clouding the outlook for French companies, especially those under family control.

Over the past year, Bolloré shares have fallen 19.5% giving up €1.3billion of capitalisation (assuming elimination of self-control loop - henceforth **SCL)** despite the only major mark-to-market negative being the €420million *pro-forma* in Vivendi. Whilst disappointing, the largest equity investment – 338milion Universal Music Group shares worth ~€8.3billion have barely moved in value, but are actually **up** €360million, not quite offsetting the diminution in Vivendi[8]. The Group has spent money on buybacks and, whilst marginal to valuation, the energy distribution business has improved.

We estimate that Bolloré has suffered around €1.2billion of "rating" decline since 30 September 2024 rather than attributable mark to market loss from declining share prices. The diminution in rating, exhibited by a widening discount to NAV, now up at 40-70% (see below) in our view can be attributed to investor unease over the corporate mistakes over the period, supplemented by:

[4] Adapted from Queen Elizabeth II, Guildhall 24 November 1992
[5] Compagnie du Cambodge, Financière Moncey, Société Industrielle et Financière de l'Artois
[6] Assumed 1115million shares excluding self-control loop
[7] Authorité des Marchés Financiers – French regulator (18 July 2025)
[8] We are not oblivious to the fact UMG shares rose €1 a share (4.2%) in the last week of the third quarter.

- the utterly ludicrous Louis Hachette Group structure where the ownership of the key asset, Lagardère, is split between four parties – Louis Hachette Group (AHLG.PA) with 66.5%, Vivendi (13.3%), Qatar Investment Holding (11.5%) and minorities (8.7%)
- this has a direct impact on Lagardère (flat over one year) being de-rated against the major cohort stock, Avolta (AVOL.SW) which has appreciated 20% (CHF 35.80 to CHF43.06) despite both companies performing well in a beneficial travel retail environment;
- lack of recent buybacks by Bolloré itself; and
- the time required to conclude the Canal+ acquisition of MultiChoice in South Africa – this situation and the ridiculous Hachette structure suggests a level of injudicious impatience not previously observed within Bolloré.

at 30 Sep 2025	**shares**	**price**	**Value €mn**	**Value 30/9/24**	
Canal+	302	€2.80	817	}	Canal+ £2.45
Louis Hachette	302	€1.54	465	3,110	
Havas	302	€1.57	474	}	
Vivendi	302	€3.00	906	}	
UMG	338	€24.56	8,301	7943	
Rubis	6.2	€31.78	197	152	
LISTED			**11,160**	**11,206**	
Energy			492	492	9.1x EV/EBITA
Bigben			10	10	
Socfin			290	290	
TOTAL			11,952	11,998	
Cash			5,530	5,763	Buy back, purchases FMONC, ARTO
Corporate			(700)	(700)	€70mn at 10x
NET VALUE			16,782	17,061	
Shares			1,115	1,135	
			€15.05	**€15.03**	
Sofibol structure			4,688	4,035	Reinstate self-control loop
TOTAL			21,470	21,096	
Shares			2,804	2,836	
			€7.66	€7.44	

Allowing for share buy backs totalling €177million (€115million Bolloré, ~€62m FMONC and ARTO) we believe "value" has fallen by only around €100million over the year, against a SCL adjusted decline in market capitalisation of €1.3billion (€1.17/share) – a de-rating of ~€1.2billion.

Progress at Bolloré is likely to be slow ahead of a 25 November 2025 French Supreme Court date where Bolloré will appeal the AMF's decision on 18 July 2025 to enforce a Paris Court of Appeal ruling that it controlled Vivendi and mandate a takeover offer within six months.

The most bizarre aspect of the legal case is the motivation of the original plaintiff, CIAM, a so-called "activist" fund manager with a small estimated 3.3mn share stake in Vivendi at the time of the break-up. We can't see any "shareholder value creation" although CAIM's lead counsel seems to have scored himself a lucrative new job[9] – maybe that was the motivation?

[9] BLB&G Expands European Presence with Legal and Finance Expert Julien Visconti (3 February 2025)

In the event Bolloré loses its appeal and is required to make a cash offer for Vivendi, based on our rough assessment of Vivendi NAV (€4.20) Bolloré would be up for ~€3.4billion (~704million shares) and assume €1.77billion of Vivendi debt, taking an enlarged Bolloré down to ~€400million in net cash. Moreover, Bolloré would have enormous €12.4billion **direct** exposure to UMG, which we believe, from past comments, is a position with which they would be immensely uncomfortable and seek to mitigate. The blowout in discount to NAV clearly reflects the difference between investor view of cash and an even larger collection of strategic positions. We maintain our position, with an obvious "hedge" in Vivendi.

Exor: assessing the private holdings for a clue to the future.

Exor is the Amsterdam listed holding company of the Agnelli family, who own 55.2% of the economic interest, but control over 85% of the voting rights. Their private ownership vehicle, Giovanni Agnelli BV (**GABV**) has around 100 shareholder-descendants of the eponymous Fiat[10] founder, who died in 1945. The family were absent from Fiat's leadership for twenty-years between 1943 – 1963 until the return of Giovanni's grandson, Gianni as President from 1966. Upon Gianni's retirement, in 1997, the son of his of daughter Margherita, from her first marriage, John Elkann, was chosen as heir to the family fortune. Elkann owns 60% of an intermediate company, Dicembre, with his siblings Lapo and Ginevra (20% each)[11]. In turn, Dicembre owns 40% of GABV having bought out various members of the wider family.

Exor SA was an asset rich French holding company controlled by the French-Greek Mentzelopoulos family. Exor itself controlled 35.5% of Source Perrier, the water brand, the famous Château Margaux vineyards plus an array of French office properties. Having acquired a core stake from the Mentzelopoulos family, Agnelli's IFI International (IFINT) investment vehicle in November 1991 moved to take control, and the two companies merged in 1993 to create Exor Group, listed on Luxembourg Stock Exchange. The intervening period was one of great corporate battles with Nestlé for control of Perrier, then scandalised by benzene contamination, but eventually ceded by Exor SA in March 1992 for a US$960million payday (and US$200million profit).[12]

In November 1998, the predecessor of GABV launched a takeover offer for Exor Group, effectively leaving the company as 90.4% Agnelli's (through different vehicles) and 9.6% Corinne Mentzelopoulos. In March 2003, Exor Group sold its 75% of Château Margaux to Mentzelopoulos.in exchange for her holding in Exor Group ($440million worth at the time)[13]. IFI reorganized the sale of <u>its</u> Exor Group shares in March 2006.

In September 2008, the Agnelli's commenced a project to merge the various investment arms of the family: IFI – the ultimate holding company – and its 62% subsidiary IFIL (holding financial assets) - was duly consummated on 1 March 2009, under a new holding company: Exor SpA, the <u>third iteration of the Exor name</u>, which became Exor NV on the move to Netherlands in 2022.

Elkann's thoroughly admirable culture of capital management, compliance and disclosure – and investment skills – have produced exemplary long-term performance: **17.1% compound growth in NAV for just over 16.5 years. Taking account of dividends, and our own estimated NAV (before any adjustments) at 30 September 2025 of €178.70, investors at the start have seen a compound net asset value return of 18.3% pa, and with a close in discount from 59% to 53%, total share return of 20.8% pa.**.

[10] Fabbrica Italiana di Automobili Torino

[11] This ownership continues to be contested by Elkann's mother – see (for example) "Lawsuit drives rift amongst Agnell's" Wall St Journal 18 Nov 2009, and "The 20-year inheritance feud dividing the Fiat dynasty" Financial Times 2 March 2024

[12] The Perrier battle was a business school staple from 15 or so years ago – many presentations and papers available on-line

[13] IFI Quarterly Report 30 September 2003.

Of course, should investors wish to capture all of this, they can't, and have to accept a ludicrous discount to NAV of ~53% - accepting that most would have bought at a wide discount to NAV in any case.

Even dead in the water European holding companies who contract out decisions on their capital to others don't trade at that level of discount. This is a company where judicious capital management has been a key contributor to NAV growth, including two years of ~€1billion share buybacks in 2023 and the current year

Exor has reduced treasury adjusted share capital from 240.9million shares in March 2009 to the current 201.5million, despite ESOP issues. This has been achieved by buying back 54.1million shares over 16 years at an average price of €54.10 (a 70% discount to current NAV) but reselling 12million in 2015 at €42.60 (whose acquisition price at the time was €15.32). In the past three and a half years, Exor has stepped up the pace of buybacks as the discount to NAV has widened, having spent €2.5billion to repurchase 30.7million shares or ~13% of the company at ~€81.45 or about half NAV.

Having changed to a Dutch holding company and Amsterdam listing in 2022, Exor transitioned to "investment entity" reporting in 2024 to remove the analytical complexities of deconsolidating publicly-listed "industrial" businesses to derive a net asset value. Exor's NAV is now fully audited on this new transparent basis.

Fiat Owners Seek Diversity In Bid for French Company

By STEVEN GREENHOUSE

Special to The New York Times

PARIS, Nov. 28 — In one of its biggest diversification moves outside of Italy, the Agnelli family, which controls the Fiat automobile group, began a takeover bid today for Exor S.A. That French holding company owns big stakes in Perrier, the bottled water company, and Chateau Margaux, the elite Bordeaux wine maker.

In a communiqué today, officials of the Paris Bourse announced that an Agnelli holding company was offering $326 million for 1.36 million shares of Exor, which would raise the Agnellis' holdings to two-thirds of the Paris-based company.

Camera Press

Giovanni Agnelli, the patriarch of the Agnelli family, which yesterday made a takeover bid for Exor S.A., the French holding company that controls a third of Perrier.

Earlier this year, Ifi International, the Agnellis' Luxembourg-based holding company that is making the bid, acquired a 21.8 percent stake in Exor. When the Mentzelopoulos family, which controls Exor, agreed this week to sell the Agnellis enough additional shares to raise their stake to more than 33 percent, the Agnellis were required by French stock exchange rules to make a tender offfer for a two-thirds stake.

A senior Exor official said his company considered the Agnellis' offer a friendly one.

Exor has a market capitalization of close to $1 billion. Its holdings include more than a dozen prime office buildings in Paris and a 3 percent stake in Banque Indosuez, the French investment banking empire.

Exor controls 35 percent of the shares of Source Perrier S.A. and 40 percent of its voting rights. The chairman of Exor, Jacques Vincent, is also chairman of Perrier.

With the bid, Giovanni Agnelli, the chairman of Fiat S.p.A., Italy's largest industrial group, gave his strongest signal yet that his family was expanding outside Italy and the auto industry.

Revenue From Italy

Paul Dionne, an analyst with Pasfin, a Milan-based stock brokerage, said the diversification made sense because some 60 percent of the Agnellis' automobile revenues come from Italy.

Analysts said the Agnellis' moves were not surprising considering that Italy, which is plagued by deficits, faces rough economic times. Furthermore, it will soon eliminate its severely restrictive quotas on Japanese car imports.

The announcement today was the second major development this week

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Owners of Fiat Seek Diversity in Bid for French Company

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involving Italy's most powerful and most closely watched family. On Sunday, Mr. Agnelli, who is 70 years old, confirmed what had long been believed when he said his younger brother, Umberto, who is Fiat's vice chairman, would succeed him. The elder Agnelli did not specify a date for the change.

According to the Paris Bourse, Ifint is offering 1,320 francs, or $240 a share, for Exor. That represents a premium of 23 percent over the price of 1,070 francs at which Exor was trading when it was suspended on Wednesday. In trading in Paris today, Exor shares closed at 1,302 francs.

Several analysts said that the Agnellis' offer might face some antitrust scrutiny. Another Agnelli holding company, Ifil, owns a 5.8 percent stake in BSN, which is France's largest food company. BSN, the archrival of Perrier, markets Badoit and Evian mineral waters and has a larger share of France's bottled water market than Perrier.

In addition, the Agnellis and BSN have formed a joint venture that has become the largest food company in Italy. That venture owns Ferrarelle, Italy's largest bottled water company, as well as extensive interests in cheese, pasta and beer.

Pierre Martinet, an assistant to Exor's chairman, said that despite such links, BSN would have no say in how Perrier was run.

Sylvain Massot, a food industry analyst for Morgan Stanley in London, saw no conflicts. "My feeling is that as long as Perrier and BSN are run separately and remain competitors, there should be no antitrust problem," he said.

Mr. Massot said the Agnelli offer seemed attractive because it offered a substantial premium over Exor's recent stock price. But he noted that the offer of 1,320 francs was well below the 2,000 francs Exor shares reached in 1990.

Exor's stock has been hit hard by the depresssed Paris real estate market and the slump in Perrier stock, which resulted from the dive in Perrier sales after the discovery last year of benzene in its bottles.

Some analysts suggested that the Agnellis' timing was shrewd, saying it was only a matter of time before Paris real estate prices and Perrier profits picked up.

As for the Mentzelopoulos family, analysts said they reduced their 30 percent stake in Exor because they wanted to further diversify their holdings.

Many analysts said the price of Exor's pieces far exceeded the $820 million capitalization it had before the Agnelli offer and the $992 million capitalization at today's closing stock price.

One analyst said Exor's Perrier holdings were worth $730 million, its real estate holdings were worth $635 million, its Chateau Margaux holdings, $180 million, and its Indosuez shares, $164 million.

As part of their diversification efforts, Agnelli-controlled companies have acquired a 6.4 percent stake in Saint Louis, a leading French food processing company, and a 6 percent stake in Alcatel-Alsthom, the giant French telecommunications and electric equipment company.

[14] "New York Times" 29 November 1991

Somewhat strangely, the greater the transparency, the greater the discount to NAV. The author's experience over time is that discounts to intrinsic value of investment-type companies often widen out as narrow bull-markets with strong thematic influences – such as exists at present – approach their zenith. So that aspect of Exor is no surprise. The hefty starting point, and the persistent "fear" which pervades investor views on Exor (too concentrated, Ferrari is too expensive, the unlisted bits are opaque, etc) is clearly at odds with how similar investors view securities in the technology part of the equity space.

We believe that it has been forgotten that **on a see-through basis** Exor has publicly quoted investments, **at prices prevailing** on 30 September 2025, equivalent to €159.52/share, unlisted businesses of €22.47 and pro-forma net debt of €553million after the Iveco deal or €2.75/share. Allowing a 25% discount to market for the listed component and 40% for the private/unlisted piece, suggests a fairer trading price for Exor should be around €130/share rather than the prevailing €83.

But, is this bearish enough? Whilst in this piece, it is **not** our intention to deeply analyse and assess the **major** holdings of Exor – Ferrari, Stellantis, CNH and Philips – valued at over €27billion, of which the first three have formed part of Exor (in some form) since the modern entity was incepted. In our view, it's more interesting to look at some of the peripheral investments to evaluate whether they can grow strongly to become "core" or if they are "dead" money and worthy of the 50%+ NAV discount currently ascribed to Exor equity. Should they be freed up and the proceeds use to buy back yet more equity?

BUT we can't gloss over Stellantis and CHNI; a 10% move in their share prices changes the quoted value of Exor's holding of each of these businesses by €350million - €400million (€1.75 - €1.99/share) and that both are subject to **major structural challenges** at present. Stellantis has the EV transition issue accompanied by attempting to optimise production location for tariffs, as well as input costs, at a cost of €1.5billion in the current CY2025. Recent management changes are attempting to portray a basing out of the business, mainly in Europe, with improved market share, and an "early stage" recovery in North America. Stellantis has €9billion of net cash in its industrial division (debt is essentially in the vehicle financing component) against a current market capitalisation of €23billion.

CNH is highly dependent on Agriculture (80% of sales versus 20% construction) and on North America - ~43% of total sales and ~37% of agriculture sales. Crop volumes in the current year across most US agricultural commodities are reasonable, and whilst some prices are down, the declines are not catastrophic. The difficulties are twofold: retaliatory action by consumers in certain markets, most obviously China which has stopped buying US soybeans, and the price of imported fertiliser – input costs have risen sharply crimping farmer cash flow. As a result, H1CY25 sales of agriculture equipment in North America fell 32% on the corresponding period. Whilst the US administration is offering new aid and payments from the implemented tariffs, there are a further three years of potential pain to navigate.

To arrive at <u>more conservative see-through numbers</u>, we recategorise investments equivalent to €19/Exor share which have daily market-to-market characteristics, as follows:

- Place the recently listed Via Transportation in the large scale listed category;
- Mark Stellantis and CNHI to even lower prices of €2.40 (cash/share) and zero respectively;
- Seperate Exor's see-through share of Institute Mérieux holding's of bioMérieux (BIM.PA);
- remove Forvia (formerly Faurecia) to this category;
- allocate the Exor holding of Lingotto public equity funds to this area,
- recategorise Iveco to cash based on a likely two stage take-out of €5.75/share special dividend from the sale of defence and the subsequent takeover by Tata Motor at €14.10 per share, yielding €1.45billion to Exor;
- place other known divestments in cash; and
- capitalise Exor corporate costs, which currently run at an annualised €22million – less than 6bp of gross assets.

East 72 Dynasty Trust

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

ISIN AU0000368219 **ABN 43 935 022 778**

EXOR: ESTIMATED AND ADJUSTED NAV AT 30 SEPTEMBER 2025 (€million)							
		ACTUAL VALUE		**ADJUSTED PRICE**	**ADJUSTED VALUE**		**per EXO share**
Stellantis		3,577	$	2.40	919	€	4.56
Ferrari		15,618	$	485.22	15,618	€	77.51
CNH Industries		3,393	$	-	0	€	-
Philips		4,241	$	27.26	4,241	€	21.05
Clarivate		220	$	3.83	220	€	1.09
Via Transport		633	$	52.62	633	€	3.14
Juventus		676	€	2.73	677	€	3.36
Forvia		114	€	11.41	114	€	0.56
Bio Merieux (direct)		310	€	113.80	310	€	1.54
Bio Merieux (indirect)		793	€	113.80	793	€	3.94
Lingotto PLC		2,569	€	1.00	2,569	€	12.75
LISTED EXPOSURES		**32,144**			**26,094**		
	€	**159.52**				**€**	**129.50**
Other Companies							
The Economist		403			403	€	2.00
Institut Merieux (ex BIM)		179			179	€	0.89
GEDI Gruppo		118			118	€	0.59
Tag Energy		210			210	€	1.04
Welltec		374			374	€	1.86
NUO		121			121	€	0.60
Lifenet		80			80	€	0.40
other		75			75	€	0.37
Christian Loubertin		575			575	€	2.85
TOTAL		**2,135**			**2,135**	**€**	**10.60**
Partnerships							
Other listed		42			42	€	0.21
ETF investments		195			195	€	0.97
Lingotto private		624			624	€	3.10
Other funds		61			61	€	0.30
Other assets		284			284	€	1.41
Unlisted secs		370			370	€	1.84
TOTAL		**1,576**			**1,576**	**€**	**7.82**
MAJOR INVESTMENTS		**35,855**			**29,805**		**147.91**
Cash & Equivalents		1,532	Net		1,532	€	7.60
Iveco		1,347		19.85	1,457	€	7.23
Reinsurance vehicles		168			168	€	0.83
Ora Global (ex- ventures)		648			648	€	3.22
LIQUIDITY TOTAL		3,695			3,805	€	18.88
GROSS ASSETS		**39,550**			**33,610**	**€**	**166.79**
Other liabs					0	€	-
Gross Debt		-3,542			-3,542	€	(17.58)
Corporate costs		0			-220	€	(1.09)
Other liabs		0			0	€	-
NET "DEBT"		*153*			*-3,762*	*€*	*(18.67)*
Treasury		0			0	€	-
NET ASSET VALUE		**36,008**			**26,043**		
PER SHARE	**€**	178.70				**€**	**148.12**
					shares (mn)		201.51
Share price on	€	83.20					
Discount		-53.0%			Discount		-43.8%

Assessing Exor's key unlisted assets

We believe seven components of Exor's unlisted exposure are worth of comment:

- Lingotto, the funds management business which has had a stellar first few years with value-adding contributions from investments we wouldn't generally associate with Exor;
- Institute Mérieux where the value of the publicly listed bioMérieux is being supplemented by interesting moves in the food testing subsidiary;
- Ora Global, where the funds are being wound down;
- Christian Louboutin – which remains opaque;
- *The Economist* where the largest holder of one class of voting share is now a seller, which will ensure Exor has a serious decision to make on the investment;
- Welltec, an exceptional business but where earnings have peaked for the time being; and
- TAG Holding, a green-energy exposure with credentialled partners.

In total, these seven exposures are carried at €6.38billion or €31.73/share in the Exor books at 30 June 2025. All represent, in different ways, the hallmark of Exor: collaboration with credentialled experts and accomplished individuals in the relevant area.

Lingotto – aggressive public equities management

Lingotto[15] is a public markets and private equity manager with a history dating back to 2021, but officially founded in 2023. This business has assets under management of US$8.2billion of which Exor is the beneficial owner of some US$3.7billion (€3,193million at 30 June 2025) suggesting outside capital of US$4.5billon.

Lingotto's three public company funds have a more than useful track record in total. Exor's exposure to them is tabulated below – figures in €m:

Start date	Period	Start funds	Invested	Return	End funds	Est. return
31 Dec 21	2022	337	615	116	1068	18.0%
31 Dec 22	2023	1068	325	342	1736	27.8%
31Dec23	2024 H1	1736	-	222	1,958	12.8%
30 Jun 24	2024 H2	1,958	-	275	2,233	14.1%
31Dec24	2025 H1	2,233	-	336	2,569	15.0%
Cumulative		**337**	**940**	**1,291**	**2,569**	**123.2%**

The most recent six-month period was driven by exposures to precious metals and large scale positions in Carvana, Paramount Global and Teva Pharmaceutical, the generic drug manufacturer; assuming that the private funds are exclusively Exor, we estimate the public equity funds hold around US$7.5billion of investments at 30 June 2025; our estimate of the 10 largest US-listed weightings as at 30 June 2025 and six month price return to 30 June 2025 are as follows:

	est weight	return		est weight	return
Carvana	17.0%	+65.7%	Harmony Gold	3.4%	+70.2%
Paramount Global	8.8%	+23.3%	Sibanye Stillwater	2.7%	+118.8%
Teva Pharma	6.3%	-24.0%	Van Eck Junior Gold miners	2.3%	+58.1%
Range Resources	3.9%	+13.0%	Valaris	2.1%	-4.8%
Veon Limited	3.7%	+14.9%	Novagold Res.	1.9%	22.8%

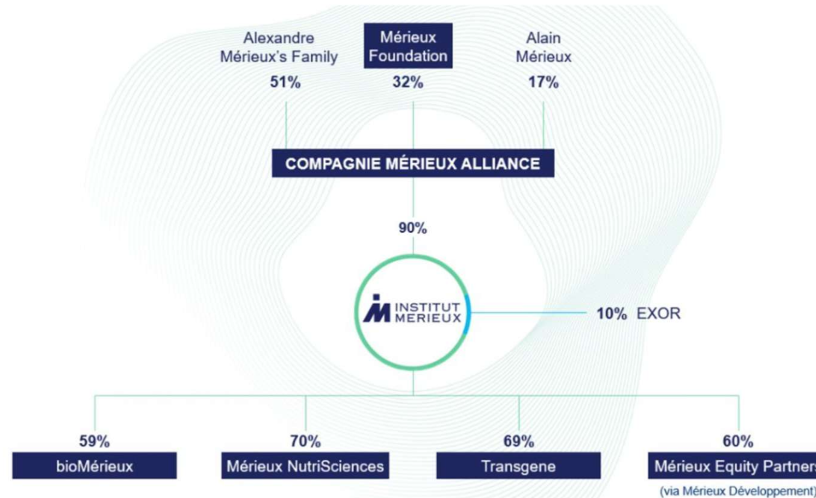
Source: East 72 Management P/L estimates from 13-F filings

These types of securities are wildly different to those typically owned by Exor and so represent an intriguing, if in the author's view, slightly wild diversification option.

[15] Lingotto is named after the old FIAT factory in the eponymous suburb of Turin where it was built in 1923 and closed in 1982.

Institute Mérieux: credibly valued

Exor is the sole non-Mérieux family shareholder in the business, which has four strands:



The value of Institute Mérieux is dominated by its 59% controlling shareholding of bioMérieux (BIM.PA), a French listed diagnostic business capitalised at €13.5billion, in which Exor also has a small direct minority holding. Exor's 10% stake in Institute Mérieux values 100% of the equity at €9740million with the shareholding in BIM having a current market value of €7,955million – Exor acknowledge the stake is over 80% of the value of Institute Mérieux. BIM is immensely profitable with gross margins around 56% on revenues of ~€4.1billion. BIM generates annualised free cash flow of ~€440million and carries negligible debt leaving the securities priced at a free cash flow yield of ~3.25% and P/E of 24x – fitting for a quality testing and solutions business.

Institute Mérieux does not publish financial reports, so the extent of financial debt is unknown, but is unlikely to be consequential. Transgene (TNG.PA) is a €150million market capitalised listed vaccine designer with various products at the clinical trial stage.

By deduction, the remaining assets within Institute Mérieux can be ascribed a carrying value of €1.68billion. The funds management business – Mérieux Equity Partners – manages €1.5billion across various venture funds; it is unclear the extent of the funds' principal component.

The most interesting "hidden" part of Institute Mérieux which could add significant value over the next 2-3 years is the 70% owned Mérieux NutriSciences, with the remaining holding split 15.4% with Sofina (SOF.PA) the French listed private equity investor and 14.6% by Groupe Industriel Marcel Dassualt, the family holding company of the €22billion Dassault Aviation military jet, Falcon jets and other related aviation services. In September, Mérieux NutriSciences closed the acquisition of the worldwide food testing business of Bureau Veritas for an enterprise value of €360million (revenues of €133million) and now claims to have a food testing business with global revenues of €1billion across 140 laboratories. Testing businesses – across the spectrum such as these in the public arena tend to be highly priced, with EV/revenues of ~ 3x (viz BIM itself, this acquisition, Australia's ALQ, and Switzerland's SGS[16]) suggesting that the implied carrying value of 100% of Mérieux NutriSciences is a **maximum** €2.4billion, which contextually appears very reasonable, with prospects for valuation accretion.

[16] Exor was a major 15% holder of SGS from 2000 and it represented around 14.5% of gross asset value at inception of the current structure in March 2009. In June 2013 Exor sold its entire stake to Groupe Bruxelles Lambert for €2billion and a capital gain of over €1.5billion.

Ora Global

Ora Global is an independent manager established by Noam Ohana, who ran Exor Ventures. Ohana is running the Exor portfolio independently but Exor have noted" that the fund is transitioning towards value realisation"[17]

Christian Louboutin:

There are no publicly available financials on the company although a Moody's report from 2023 suggested annual revenue of €1.7billion and EBITDA ~€300million. Assuming no debt, at Exor's implied value of €2.4billion for 100% of the equity, this would suggest an EV/EBITDA multiple of 8x. In our opinion, this is unrealistically low suggesting the rumoured figures are incorrect or there is some leel of debt in the company. In any event, Louboutin operates 150 expensive boutiques around the world suggesting deduction from EBITDA in the form of lease expenses would be significant. Hence, we cannot make a real judgment on carrying value but note overall weakness in the publicly listed luxury sector with selected exceptions such as Hermes.

The Economist: serious decisions to make which have wider ramifications of perception

Exor boosted its stake in the *Economist* in August 2015 from just below 5% to 43.4% via the purchase of most of Pearson PLC's stake – a month after the vendor had sold the *Financial Times* to Nikkei. Exor paid £287million for two classes of security, which is highly relevant in the context of contemporary events.

The *Economist* was founded in 1848 by James Wilson and shares in the business were held in trust after his death with a series of protections to ensure the independence of the magazine. "Ownership" changed in 1928 to Financial Newpaper Proprietors (owners of the *Financial Times*) but established a structure of only partial voting control with veto rights. After a further change in ownership of the FT's holding company in 1945, it was acquired by Pearson Group in 1957, who retained ownership for 58years. With the sale of the paper to Nikkei, the stake in The Economist was separated out and dispersed to a small number of buyers, mainly Exor as well as the purchase of treasury shares by the company itself, funded by the sale of the iconic Economist Building in Mayfair, London to Tishman Speyer

The Economist has a peculiar share structure with:

- 1.26million "A" shares who elect 7 of the Board's directors;
- 1.26million "B" shares exclusively held by Exor who elect 6 of the Board's directors;
- 17.64million ordinary shares (after excluding 5.04mn treasury shares) - no voting on Directors;
- 100 trust shares which are the ultimate arbiter on share transactions

Exor owns the "B" shares for which it paid £59.5million in 2015 (£47.22/share) and 7.49million ordinaries, of which 6.3million were acquired in 2015 for £227.5million (£36.11 per share). The Economist publishes an indicative price per ordinary share each year which as at 31 March 2025 was £31.50.

The "A" shares are owned by an elite group of individuals, including a number of past editors and CEO's of Economist including Rupert Pennant-Rea, Andrew Knight, various members of the Leyton family, David Sewell Gordon and others including members of the Cadbury family. Many of these holders are octogenarians, which raises a genuine issue. However, the largest holder of "A" shares with 19% (240,440 shares) is Lynn Forester de Rothschild (aka Lady Rothschild) the widow of Sir Evelyn de Rothschild (died November 2022), the former patriarch of N.M. Rothschild and Sons, the "English" part of the Rothschild investment banking empire prior to its effective merger with the French bank in 2003. Sir Evelyn was Chair of the Economist from 1972 to 1989.

[17] Exor Interim results 2025 page 10 (17 September 2025)

In September 2025, Lady Rothschild appears to have engaged Lazard to explore options to sell her stake[18] which the same article attributes a price of £200million+. Whilst the stake is the largest "A" share stake – bearing in mind no shareholder can exercise over 20% of the vote – it does not carry 20% of economic interest for dividend or winding up purposes. Hence, the attributed sale price, at face value, appears fanciful, when set against Exor's agreed transaction for the "B" shares in 2015.

Abridged financial metrics for The Economist are given below since Exor's major acquisition in late 2015:

Year to March (£million)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	282	303	329	333	326	304	338	368	360	368
Operating Profit	47	43	38	31	31	42	45	42	47	48
Profit After Taxation	37	39	28	25	21	31	34	31	34	35
Profit on Sale of CQ-Roll Call, Inc	-	-	-	43	-					
Profit on Sale of Economist Complex	110	-	-	-	-					
Non-current Assets	146	174	167	160	158	74	85	90	83	71
Net Borrowings	-97	-105	-116	-94	-119	-30	-16	-18	-5	9
Deferred Income	-105	-125	-119	-105	-119	-120	-128	-131	-128	-139
Other Assets and Liabilities (net)	-21	-42	-23	-16	-18	-15	-26	-17	-19	-6
Net Liabilities	-77	-88	-91	-55	-98	-90	-85	-76	-69	-65
Total Dividend Per Share Paid in the Year	152.8p	193.2p	181.1p	149.0p	115.0p	0.0p	133.0p	127.0p	120.0p	173.0p
Final and Interim Dividend Proposed Per Share	183.4p	183.4p	165.1p	120.0p	40.0p	100.0p	120.0p	120.0p	160.0p	218.0p
Indicative Share Value	£33.00	£31.00	£28.50	£25.50	£23.00	£25.00	£30.00	£30.00	£31.50	£31.50
Dividend Yield	5.56%	5.90%	5.80%	4.70%	1.70%	4.00%	4.00%	4.00%	5.10%	6.90%

The figures are presented on a continuing basis and show a rather mundane pattern with 3% CAGR for revenue over the nine years, and static operating profit. Revenue is roughly two-thirds subscribers with around 1.25million currently, of whom two-thirds are digital only, implying an average price of £196 per annum (~US$270 a year) per subscriber[19]. Subscriber growth is below 3% per annum. The business is highly cash generative, with operating cash flow before tax of ~£45million per annum (after rental) which assists in servicing the generous dividends. The Economist carries no debt, holds £38million in cash, but has £135million of deferred income in subscriptions "yet to be delivered".

Exor's carrying value of €403 (£352) for 43.4% of The Economist crudely values the equity at £812million, equivalent to a P/E of 23x, and a post-tax free cash flow yield (FCF £35million) equating to 4.3%. Bluntly, it's hardly exciting and in our opinion, doesn't have the data-driven interests of its erstwhile parent or News Corp's Dow Jones. In our view, that limits the extent to which the group has pricing power in the future, despite the quality content.

So for Exor, the decision by Lady Rothschild presents a potential dilemma. Do they look to negotiate a pathway to full control, given the age of the "A" shareholder block, based on their pristine reputation as guardians of what is really an heirloom? Do they just buy out Lady Rothschild and be constrained? Do they look to divest to another buyer seeking full control? Perhaps the biggest dilemma is for the custodians of the Economist – can they find a 100% "hands-off" owner as Pearson largely were with Financial Times.

From an Exor standpoint, we would NOT want to see further investment in a situation where they are an effective guardian of an investment which has grown in value at below 3% a year with a ~4% yield. Not what is expected from a private equity stake, and not a commensurate return for risk. The prevailing valuation, in our view is likely to be challenged through the Lady Rothschild/Lazard process. Do Exor push for change and try to move to 100%? Do they sell too? Or sit pat and do nothing. In our view, how this is handled – and at what price - has wider ramifications for how the group's unlisted investments are viewed.

[18] "Forester de Rothschild said to explore sale of stake in the Economist Group" Bloomberg 16 September 2025

[19] This is not wholly accurate given the contributions of Economist Intelligence Unit (£44m revenue, virtually all subscription) and Economist Impact (£98million – events based)

Welltec:

Exor owns 47.6% of Welltec, a Danish based company founded in 1994 which has dominant global positions (in 2021, 55% and 40% global market shares respectively)[20] in two niche areas:

- Robotic solutions for the cleaning, repair and maintenance of oil wells; and
- Metal expandable isolation plugs and packers.

Welltec are also developing solutions for green energy geothermal and carbon capture space.

Exor's major co-shareholder is 7-industries, a family office of Ruthi Wertheimer, who was a beneficiary of the two stage divestment of precision cutting tool company IMC (Iscar) to Berkshire Hathaway in 2006 (80% for $4billion) and 2013 (20% for $2.05billion) founded by Stef Wertheimer in 1952. After acquiring the holding of Welltec founder Jørgen Hallundbæk in June 2021, the two main holders own 95% of Welltec equity.

Ironically, Welltec's profitability has grown sharply since Exor/7-industries moved to 95% ownership. The business clearly has highly cyclical aspects, dependent on oil company operating and development expenditures, which have oil price stimulants but also cost saving and hydrocarbon extraction aspects. Welltec has also benefitted from the repayment of debt since 2020. The main debt is publicly issued US$ 8.25% senior secured notes (which is why Welltec has public annual reports); US$325million of principal was issued in October 2021 – effectively representing net debt at the time. Through significant profit growth and smart capital management, Welltec has redeemed and bought back nearly half of these notes, and when offsetting US$103million of cash, carries net debt of only US$59million at end 2024.

Welltec's abridged historic profits are shown below:

calendar year (US$mn)	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	189	170	237	262	222	250	348	435	428
EBITDA (IFRS16 from 2019)	68	60	67	97	58	105	174	230	219
Operating profit (EBIT)	3	-20	13	57	41	68	124	185	168
Net financial expenses	-26	-17	-18	-24	-41	-45	-24	-24	-12
Profit before tax	-23	-37	-6	33	0	21	98	151	159
Net profit / (loss) for the year	-25	-35	-17	21	-16	5	65	106	117
Equity	56	49	29	41	70	126	187	265	369
Total assets	441	435	435	487	530	536	603	673	707
EBITDA margin (%)	36.0%	35.3%	28.3%	37.0%	26.1%	42.0%	50.0%	52.9%	51.2%
EBIT margin (%)	1.6%	-11.8%	5.5%	21.8%	18.5%	27.2%	35.6%	42.5%	39.3%
Net debt/EBITDA gearing					4.2	3	1.5	0.7	0.4

Source: Welltec company reports, Denmark CVR

Based on results for publicly listed cohort companies, it is clear that activity has likely reached a zenith for the time being given a range-bound oil price. Exor noted Welltec revenues at $212million in H1CY25 – roughly flat – but reduced the valuation of their equity stake to €375million (US$440million).

Broad industry leaders Schlumberger (NYSE: SLB; market cap US$53billion) and Halliburton (NYSE HAL, $21.4billion) trade at a blended EV/EBIT of 8.2x CY2024 historic earnings, a peak for the current cycle. SLB trades at 9.6x but HAL – more cyclical with a 30% EBIT decline forecast in CY2025 – a lower 6.7x.

[20] "Welltec's founder and CEO retires" Press release, 14 April 2021

Exor's carrying value ascribes an equity value of $926million to Welltec and EV of ~$986million, pricing EV/EBIT at a 5.9x multiple, below either of the publicly traded cohort companies. In our view that is contextually reasonable. In time, in our opinion as the cycle moves to a more favourable environment, Exor may look to exit the investment.

TAG Holding: another affiliation with strong industry players

The corporate structure of TAG Holding (**TAGH**), of which Exor own 44.9% at a three-stage cost of €212million (€100million in 2023, €89million in 2024 and €23million in 2025) is unfortunately not fully transparent. We believe[21] the only other shareholder of TAGH is Impala SAS, an entity controlled by Jacques Veyrat, who in mid 2024, sold his 42% stake in Neoen to Brookfield for €2.5billion, when Neoen was acquired for €6billion equity value. Veyrat famously received the assets as part of an exit settlement with Louis Dreyfus Commodities in 2011[22].

In turn, we believe TAGH owns 44% of Tag Energy (**TAGE**), with the residual 56% split equally between two private equity style investors: the Nataxis affiliate Mirova via its Energy Transition Fund and Omnes, a French PE firm substantially invested in energy transition through its Capenergie #4 fund.

TAGE owns the largest Southern Hemisphere windfarm near Geelong (Vic, Australia) with capacity of 1.33GW when fully complete in 2027 at a cost of $4billion but has sold a 15% stake of the stage 2 part of the project. TAGE also has a major battery storage project in France, a 100MW battery facility in Northern England , JV on a 50MW battery in Scotland and projects in Spain and Portugal.

No public financials are available on TAGH or TAGE.

What might close the Exor discount?

In our view, Exor suffers from triple-discount factors:

- European investment holding company syndrome, where discounts in the sector are routinely 40%+ except for Investor AB, the Wallenburg controlled entity;
- The strong influence of Ferrari (NYSE: RACE), which still represents ~38% of gross assets, trades at a forward P/E of 42.5x reflecting the huge moat of the business and corresponding near 30% returns on employed capital but where investors are yet to experience a downcycle in that business since separation in late 2015; and
- 21% of gross assets exposed to unlisted entities where disclosure ranges from fully transparent to opaque and business from highly mature (The Economist) to capital intense development (TAG Holding)

The first two factors are unlikely to resolve – we don't see Exor transitioning to another type of entity and the sell down of 4% of Ferrari stock in February 2025 won't be repeated for at least a year, and there are real questions – given history - whether Exor would be prepared to fall below 30% voting rights (20% economic interest) currently held.

Hence, in our view, the closure of the discount to NAV has to come from liberation of capital elsewhere, such as:

- Reduction/sale of Stellantis and CNHI in the next up-cycle – but that's probably 3-4 years away;
- Gaining benefit from successfully selling private equity positions at or above book value over the next 1-2years.

[21] Due to lack of disclosure, some of these percentages may not be accurate

[22] "Louis Dreyfus Widow Chairman ousts men running commodities giant" Bloomberg (1 February 2012)

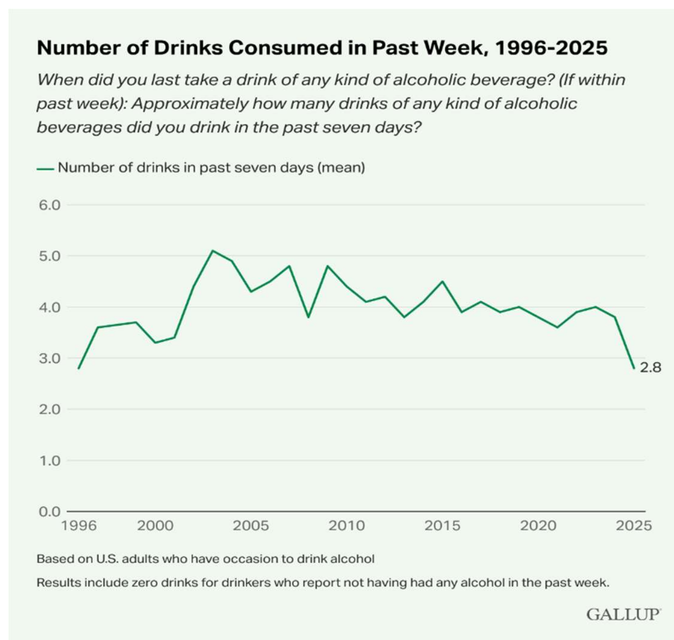
Public indications of likely divestments of Iveco (€1.4billion), Ora (€648million) and reinsurance vehicles (€198million) would see Exor be debt free on a pro-forma basis and the company has existing undrawn committed credit lines of €675million, suggesting scope to create another "7.5% - 10%" (€3 - €4billion) major position alongside Philips and Lingotto.

Based on our re-cut see through table of conservative NAV of €148.12 with lower prices for CNHI and Stellantis, and then attributions of suitable discounts to private and public assets of 25% and 40%, we view a more appropriate stock price for Exor as around €108/share – a discount of 27% to this lowered NAV, **but a near 30% return on prevailing prices**.

Hence, after being relatively inactive in the shares for over 12months, we have recently increased our weighting.

Swatch Group: diving into the green abyss fifty fathoms below[23] [24]

In a world of rapidly changing consumer tastes, often in areas where predictability has previously been a key for investors – perhaps best exhibited in an unexpected sharp broad-based decline in alcohol consumption over the past few years[25]– and consequent disastrous performance of the brand owners, predicting future fashion trends is no easy task.



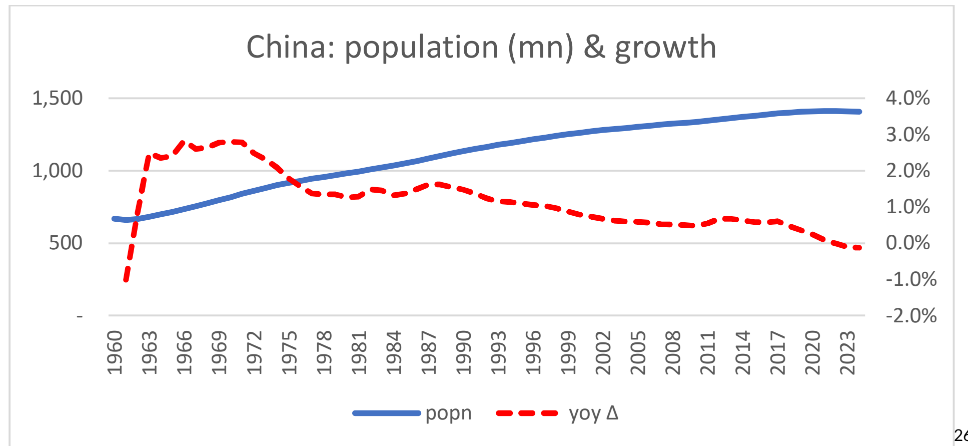
The difficulty of trend prediction is aggravated by the outsized contribution of the Chinese consumer to many of these markets. Such consumers are subject not only to economic forces – which have largely been negative over the past three years – but also changing demography which is arguably removing the <u>structural</u> growth story which existed twenty years ago.

[23] Swatch's Blancpain brand created the "Fifty Fathoms" divers watch in 1953 and has recently paired it with a co-branded Swatch in a colour named "Green Abyss"

[24] The author's Certina "Golden Armour" self-winding watch made in 1955 is celebrating its 70th birthday but like Swatch Group shares is suffering a little wear and tear

[25] Source: Gallup August 2025 "US Drinking rate at new low as alcohol concerns surge"

2024 represented the third consecutive year of Chinese population decline, the number mired at around 1.4billion. India, which supplanted China in 2021, now has a population of 1450million, still growing at just below 1% per annum, is a very different consumer/fashion market.



[26]

Many of these changes seem to have suddenly rushed to the forefront of investors' thinking in 2025, despite being apparent for some time prior. Share prices of broad-based luxury goods companies have been weak over the course of the past 21months, with only those focused on ultra-luxury brands and product with ultra-disciplined management (eg CFR, Hermes) or corporate attractions staying out of the mire:

	31/12/23	YTD	peak		31/12/23	YTD	peak
Swatch	**-32.3%**	**-7.3%**	**-74.2%**	Tapestry	+203.4%	+71.8%	-3.2%
LVMH	-25.7%	-17.2%	-40.4%	Zegna	-14.9%	+16.4%	-40.5%
Kering	-26.2%	+20.8%	-61.2%	Prada	+10.2%	-24.4%	-31.6%
CFR	+35.1%	+11.4%	-17.2%	B. Cucinelli	+10.0%	-11.1%	-26.3%
Moncler	-6.4%	-1.1%	-26.9%	Ferragamo	-54.8%	-20.3%	-82.0%
Hermes	-10.8%	-9.1%	-25.1%	Hugo Boss	-37.3%	-7.8%	-64.0%
Burberry	-15.0%	+20.3%	-55.3%	**AVERAGE†**	**-14.0%**	**-2.5%**	**-45.4%**

† excluding Tapestry

In this volatile environment, why would we contemplate investing in a wristwatch company? Isn't the industry dead, supplanted by smartwatches, smartphones and AI technology? In our view, rather like individual segments of the alcohol market (eg champagne but definitely **not** cognac) watches are a ubiquitous component of the jewellery market. They represent everything from a status symbol, are often fungible, usually collectable, and a desired self-appreciative mark of achievement, supported by some of the smartest (and largest) marketing, sponsorship and advertising budgets on the planet. Smartwatches may be highly useful but they are not necessarily the requisite piece of jewellery with which to dress up.

Swatch Group is the world's second largest watch manufacturer by revenue, only behind the privately owned Rolex. It owns **sixteen** separate watch brands ranging from the highest end Breguet, Blancpain, Harry Winston and Glashütte Original through the largest three brands Omega, Longines and Tissot down to entry level Swatch and flik-flak. Swatch owns thirteen separate production businesses, four electronic systems businesses, and a magnificent property portfolio. The company is a veritable treasure trove of 145 separate entities.

[26] Source: World Bank

But in the prevailing softer environment, it has remained a **fixed overhead based company**, driven by the desire of the controlling Hayek family to maintain production skills within Switzerland, a throwback to their father's establishment of the company from the near ruins of the Swiss watch industry in the early to mid 1980's (see later). **Swatch's fixed overheads run at around CHF5.1-5.3billion per annum, including ~CHF1billion in marketing costs.**

So, in simple terms, to forecast profits involves installing a revenue assumption **set against an 80-83% gross margin** on top. Hence, the sharp focus, under this strategy, has to be on revenues, driven either by the industry environment – currently volatile – or swings from the company's own marketing initiatives.

Swatch has two classes of shares: bearer (UHR.SW CHF149.15) and registered (UHRN.SW CHF30.40). The company's 28.741million bearer shares[27] – effectively being FIVE registered shares but with only one vote – own 55.5% of the economic capital versus the 115.128million registered shares. However, with both classes of share having one vote, the controlling Hayek family (see below) exerts 44.6% voting control through ownership of 63.45million (55%) of the registered shares and 836k (2.9%) of the bearer shares excluding treasury stock (64.3m votes of 143.8million).

In a particularly Swiss quirk, because of the Hayek ownership, the higher priced bearer shares are far more liquid than the lower priced registered securities, trading 3– 4TIMES more securities per day, despite the nominal price being five times higher. In the interest of clarity, in the analysis which follows, we have notionally converted the registered shares to bearer shares to give an effective economic capital structure of 51.767million securities, or an equity market capitalisation of CHF7.7billion.

Swatch shares are down some 75% from their record high of ~CHF600 in late 2013 and after a strong recovery from extreme COVID lows of CHF 126 in March 2020 to a March 2023 high of CHF343, a confluence of negative factors has seen a 55% decline from that level.

In the past two and a half years, the business has been impacted by:

- a collapse in Chinese consumer demand, including for watches;
- the strength of the CHF against virtually all currencies, including a 26% gain since late 2023 against the US$, increasing the effective price for the articles;
- management decision to maintain full staffing of Swiss production facilities, which lost CHF150million in the six months to 30 June 2025 despite reduced demand[28]; and
- resulting collapse in operating profit from CHF1.19billion in CY2023 to CHF68million in the first six months of 2025.

In respect of Swatch shares, the impact of these external factors and internal decisions – discussed below in more detail - has arguably been exacerbated by:

- public disagreements between analysts and the controlling Hayek family patriarch;
- a patronising (in our opinion) dismissal of an external board candidate;
- significant short selling resulting in Swatch becoming the second largest short sale exposure across European equities in August 2025;
- uncertain impact (or sustainability) of 39% US tariffs imposed effective 7 August 2025; and
- current lack of reaction to the USA by arguably timid Swiss politicians.

[27] Excluding treasury stock

[28] Transcript six month results to 30 June 2025 on 17 July 2025

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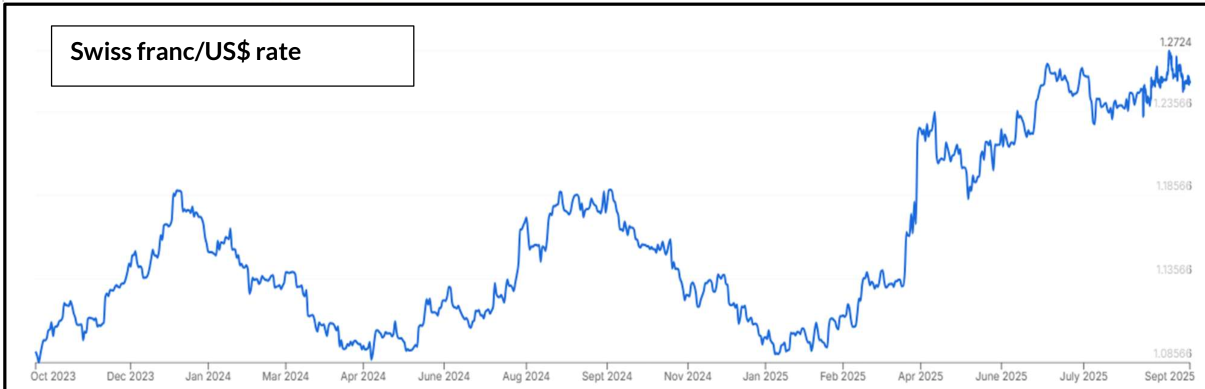
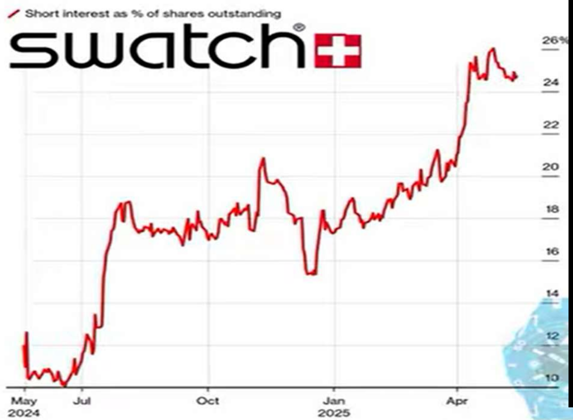




"We sell watches, not stocks. What counts for us is the long term development of the company, not the short-term natu re of the share price"

Why don't you delist the Swatch Group?

Hallelujah. This would certainly be best for the long-term development of the company. But unfortunately going private is not possible without us taking on massive debt. <u>And we don't like debt at all.</u> "[29]

Of course, the large short position might be seen as a real attraction, especially set against an ungeared balance sheet and undoubted crude asset value characteristics of the shares at prevailing levels:

CHF million at 30June 25	lower	low	comment
Net cash and financial assets	1,089	1,089	cash 1,031; financial assets 245, debt (187)
Net receivables	357	357	
Properties at historic cost/value	2,986	4,000	per management comments (see later)
Estimated **raw material** component of inventory	640	640	
TOTAL	**5,072**	**6,086**	**CHF98/share; CHF117.57**

If these "scorched earth" figures are correct – and Swatch did trade close to the "low" (not lower) bound on "Liberation Day" in April 2025 – at the Swatch price on 30 September 2025, the sixteen brands + CHF3.9bn finished inventory and IP are valued by the stockmarket at CHF1.65bn – CHF2.66bn (US$2.1bn - US$3.4bn). Given that Harry Winston alone cost US$1bn in January 2013, and the "price" includes the world's third largest individual watch brand – Omega – this appears incongruously low.

The raw material inventory figure takes account of less than 10% of total inventory and <u>excludes</u> semi-finished and completed goods; given that finished goods typically account for ~50% of book value inventory – so ~CHF3.7billion at 30 June 2025 - and are sold at a gross margin averaging a relatively stable 79% over the past 28 years, producing an implied revenue of over CHF18billion, albeit that's some three years sales at current rates - the margin of safety embedded within Swatch securities is significant.

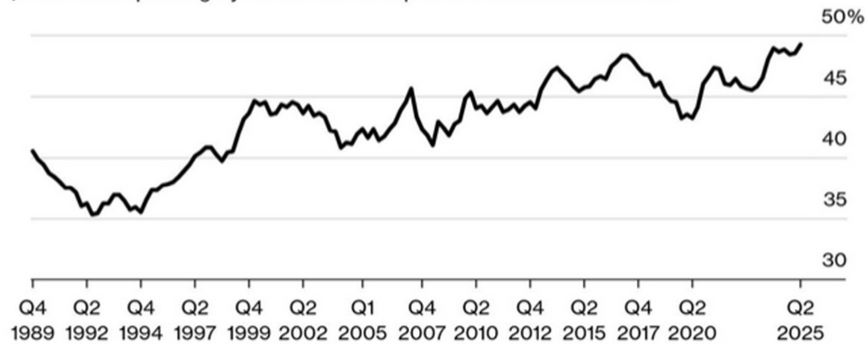
[29] Quotes from "Nick Hayek counters criticism" Neue Zurcher Zeitung (30 March 2024)

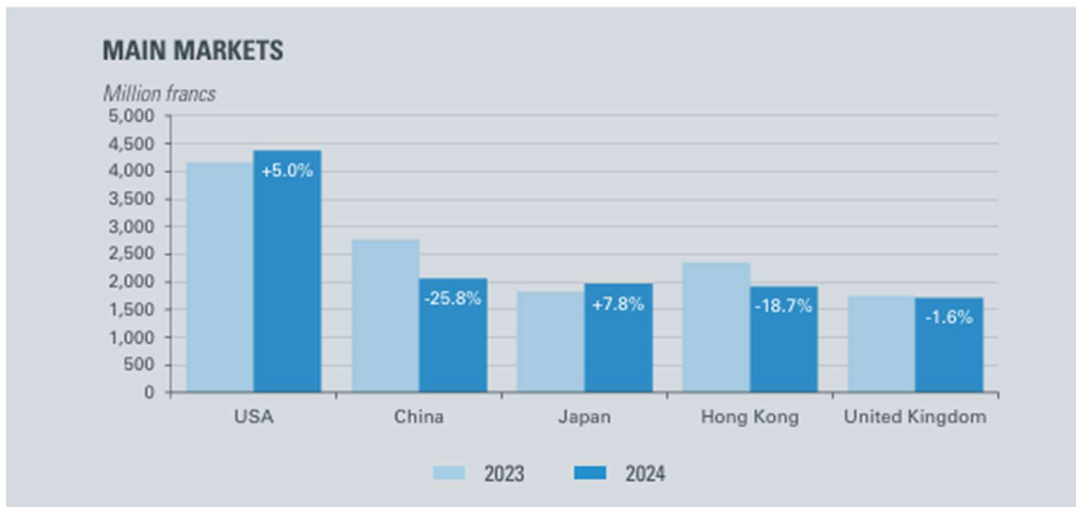
Is the watch industry dead?

Switzerland is five times bigger than any other watch exporting country, with just under US$30billion of annual exports, compared to Hong Kong's US$6.3billion and Mainland China's US$5bilion in CY2024[30]. Hence, Fédération de l'industrie horlogère Suisse (**FIH**) **monthly** statistics of Swiss exports by region, price point and in total are significant influences on investor sentiment surrounding the sector. Mechanical watches account for only ~35% of exports by units, but ~86% of export value.

Swiss watch exports are an exceptional microcosm of THE global trend of recent years: the rich get richer. In the 24 full years since the turn of the millennium, Swiss watch exports have:

- halved in units shipped from 29.6million to 15.3million;
- seen their value rise from CHF9.3billion to CHF24.8billion;
- the average export price per watch increase from CHF313 to CHF1618 (9.4%pa); and
- **units** in the above CHF3,000/piece category increase four-fold or 6.1% per annum



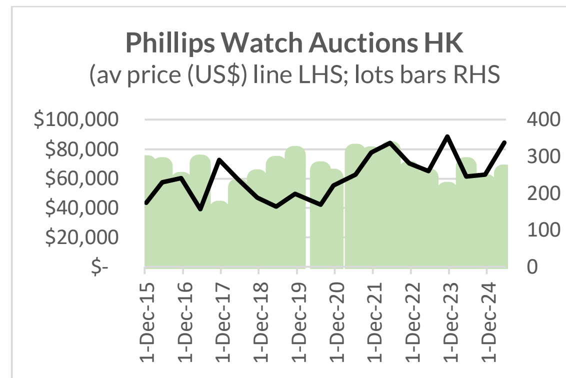


[30] Source: Fédération de l'industrie horlogère Suisse

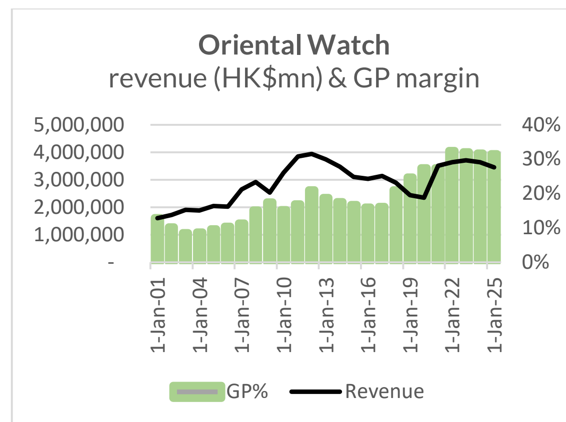
Structurally, it is clear the industry is not dead, but over the past 3-4 years, growth has slowed to a crawl, even in the higher priced categories. The risk is, of course, that the imposition of such hefty tariffs on the largest export market – USA - which represented ~16.5% of exports in 2024, when added to the decline in China, represents a bigger hurdle over the next few years.

This monthly focus on the FIH statistics has been brought about by the US tariff regime, which commenced in August, but was flagged prior. As a result, significant shipments were made to the US in advance, inflating the July statistics. The August statistics, were relatively weak, as expected, compounded by an apparent fallback in China. Swatch CEO Hayek has been more optimistic about the situation for the company in a recent ad hoc briefing[31]

There are signs, however, that Asian watch markets **may** be basing out, and in a fashion that suggests Swatch must place greater emphasis on their highest price models in the Blancpain, Brequet and "niche" brands. We have tracked every Phillips Hong Kong watch auction since 2015 – dominated by exquisite pieces and Rolex, Audemars Piguet, Cartier and Patek Philippe. The most recent auction XX (20) in May 2025 was active (254 lots sold) at the second highest ever average price (US$84,479) [32]



In addition, the two listed Hong Kong watch retail companies – Oriental Watch (0398.HK) and Emporer Watch (0887.HK), whilst not close to their 2012-year peaks in revenue, have both increased margin significantly. To some degree, this has been to Swatch Group's detriment as both are heavily focused on Rolex within the watch category (Emporer has a significant jewellery component) and have honed down the extent of their offerings. In our view, it again emphasises the possibilities for Swatch to build the "prestige" brands of Blancpain and Breguet within their offerings.



These signs were **not** apparent in Swatch six-month interim results to 30 June 2025, partly due to a very poor first quarter (Swatch doesn't report quarterly figures). To some degree the H2 CY2024 numbers were padded by the Paris Olympics timing contracts, with estimated revenue of CHF140million. Sales fell sequentially 7% between H1 CY25 and the prior half year, totally as a result of China and Hong Kong sales declines. These areas in recent years have made up 33% of sales, fell to 27% in CY2024, and are likely below 25% in the current period. Although costs and inventory were reduced, with a corresponding increase in gross margin, EBITDA fell CHF130mn on the prior corresponding period from CHF406mn to CHF276mn (via CHF314million in H2CY24). Operating income is a paltry CHF68million in H1 CY2025. Having Greater China recover, not just base out is crucial to forward progress.

[31] Transcript of conference call on US tariffs, 27 August 2025
[32] Source: Phillips.com compiled using AI

Few listed investment alternatives

There are a mere handful of publicly listed wristwatch manufacturers – three "pure" manufacturers where watches are the predominant product – together with two others where watches are part of a wider luxury group. We haven't focused on listed watch retailers elsewhere (HourGlass; Watches of Switzerland Group) given their Rolex emphasis and relationship.

2024 or 3/25	**Swatch†**	**Seiko[33]**	**Citizen[33]**	**Richemont[34]**	**LVMH**
ticker	UHR.SW	8050.JP	7762.JP	CFR.SW	MC.PA
Issued Cap	51.767mn	40.87 mn	243.9 mn	587.9 mn	497.0 mn
Share price	CHF149.45	¥6,540	¥1,003	CHF151.60	€520.50
Market Cap	CHF7,737mn	¥267.3bn	¥244.6bn	CHF89.1bn	€241.7bn
Market Cap CHF	7,737mn	1,440mn	1,318mn	89,125mn	241,693mn
Watch business characteristics – 2024 - all measured in CHF					
Watch Sales	6,735	1,023	1,030	3,124‡	10,075‡‡
Operating profit	304	120	104	166	1,473
EBITDA €	720	157	144	447	NA
Operating mgn	4.5%	11.7%	10.1%	14.3%	14.6%

† converted onto bearer share basis
‡ specialist watchmakers segment only. Cartier adds €3,532mn (CHF3,361mn) at unknown margin so that total CFR watch sales are only ~CHF250mn less than Swatch Group
‡‡ includes watches (Hublot, TAG Heuer, Zenith) and jewellery (Tiffany, Chaumet, Bulgari) and combinations

What stands out is the very low margin earned in the 2024 year by Swatch as it maintained a hefty overhead base, against a significant 15% decline in sales in 2024. Why does it do this? History.

How history guides the company

Bluntly, without the history of Swatch Group, comprehension of why the Hayek family run the company in the prevailing manner is impossible to understand.

Swatch is born out of two crises: the general economic crisis of the 1930's and the specific industry difficulties from the late 1970's. In the 1930's the collapse of the global economy led to the Swiss Government and bankers guiding together a group of 20 movement manufacturers in August 1931 to be combined as ASUAG [35]. A year before, in February 1930, the two watchmakers Omega and Tissot were merged to form SSIH[36].

The second crisis in the 1970's was created by the invention of the quartz movement by Seiko in 1969 for its "Astron" watch. Ironically, the Swiss had their own quartz watch made by Ebauches[37] by 1970, but the industry didn't embrace the new technology of the battery driven vibrating quartz crystal and stuck resolutely to the traditional mechanical timepieces. These cheaper creations boomed in popularity which along with the oil price driven economic crisis of the mid 1970's, combined to decimate the traditional Swiss watch industry, ASUAG and SSIH were both in significant financial difficulty and their Swiss bankers appointed a management consultant, Nicholas G Hayek[38], to create a strategic plan for the companies.

[33] Converted from ¥ to Sfrs at 185.63 spot and 172 sales and profit
[34] Converted from € to Sfrs at 0.9343 spot and 0.9516 sales and profit
[35] Allgemeine Schweizer Uhrenindustrie AG or Société Générale de l'Horlogerie Suisse SA
[36] Société Suisse pour l'Industrie Horlogère
[37] Part of ASUAG
[38] Father of the current CEO (Nick Hayek) and Chair (Nayla Hayek)

Hayek's plans and execution is the stuff of legend[39]. ASUAG and SSIH were merged in 1983, facilitating the removal of massive duplication of marketing and administration across all of the brands. However, the creation of a new "lower market" watch – rather than the continual devaluation of key brands like Omega through extension across all price points – was not taken on board by the controlling banks.

This gave Hayek the opportunity to acquire 51% of the merged entity, renamed Société de Microélectronique et d'Horlogerie (SMH) for CHF151million. Considering that in 1983, SMH lost CHF173million on revenue of CHF1.5billion, the "gamble" was remarkable. However, Hayek's ability to now control directly as an owner facilitated more radical reform, notably at Omega, slashing model numbers and replacing management. Of course, the new "lower end" watch to compete globally was "Swatch" –an acronym for "second watch" and encompassing fun and innovative design with a far lower number of components at a sale price of CHF40-50.

Hayek retained the key "technology" of SMH – renamed Swatch in 1998 – in respect of movements and various componentry and electronic systems manufacturing. Much of this emanated from the various companies which had merged into ASUAG and SSIH over the years with a specific niche or expertise, which could be deployed in a wider but still focused manner:

Provenace of current Swatch brands:

Brand	Founders	founded	comments/acquirors
Blancpain	Blancpain family	1735	acquired SSIH 1961, sold 1982, re-acquired by SSIH 1992 for CHF60mn
Jacquet Droz	Droz family	1738	acquired Swatch 2000
Longines	Agaassiz	1832	branded/renamed 1867, merged to ASAUG 1971, SMH 1983
Glasshütte Original	Lange, Schneider, Assmann	1845	Became GUB in 1951 within East Germany, privatised 1990, reconstituted 1994, Swatch 2000
Omega	Brandt family	1848	renamed Omega 1894, merged to SSIH 1930, SMH 1983
Tissot	Tissot family	1853	merged to SSIH 1930, SMH 1983
Breguet	Brown family	1870	Chaumet 1970, Investcorp 1987, Swatch 1999
Certina	Kurth family	1888	acquired ASAUG 1971, SMH 1983
Hamilton	various	1892	Merger of 3 American watchmakers 1892, SSIH 1974
Union	Dürrstein	1893	closed 1933; brand reborn under Glasshütte Original 1996
Harry Winston	Winston family	1908	Swatch 2013
Leon Hatot	Hatot family	1911	Swatch 1999
Rado	Schlup & Co.	1917	renamed Rado 1950, acquired SMH 1983
Mido	Schaeren	1918	acquired ASAUG 1972, SMH 1983
Swatch		1983	created 1983 "Second Watch" by SMH
Balmain		1987	Exclusive global rights from Pierre Balmain
FlikFlak		1987	created 1987 for children by Swatch

Nicholas Hayek stepped down as CEO in 2003, promoting Nick Hayek to the role, and died in office as Chairman in June 2010.

[39] There are numerous articles about the SMH/Swatch transformation but in the author's opinion one of the easier reads – available online – is "Message and Muscle" an interview with Swatch Titan Nicholas Hayek in Harvard Business Review (March-April 1993).

East 72 Dynasty Trust

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

ISIN AU0000368219 **ABN 43 935 022 778**

SWATCH GROUP OPERATING RESULTS

CHF million	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Sales	2970	3185	3518	4131	4048	3933	3828	3981	4292	4820	5646	5677	5142	6108	6764	7796	8456	8709	8451	7553	7960	8475	8243	5595	7313	7499	7888	6735
Other income	21	23	29	51	53	37	45	125	57	123	91	231	104	139	88	238	518	231	103	249	116	180	134	122	281	244	136	263
TOTAL OPERATING INCO	2991	3208	3547	4182	4101	3970	3873	4106	4349	4943	5737	5908	5246	6247	6852	8034	8974	8940	8554	7802	8076	8655	8377	5717	7594	7743	8024	6998
COGS	(907)	(1001)	(1011)	(1062)	(1032)	(953)	(806)	(921)	(1007)	(1123)	(1480)	(1567)	(1103)	(1471)	(2221)	(2356)	(2456)	(2240)	(2001)	(1642)	(1735)	(2226)	(1600)	(983)	(1524)	(1847)	(1864)	(1345)
Inventory	109	132	5	125	143	157	43	146	84	155	398	513	9	197	799	722	586	397	255	77	83	632	(16)	(364)	19	538	687	213
TOTAL COGS	(798)	(869)	(1006)	(937)	(889)	(796)	(763)	(775)	(923)	(968)	(1082)	(1054)	(1094)	(1274)	(1422)	(1634)	(1870)	(1843)	(1746)	(1565)	(1652)	(1594)	(1616)	(1347)	(1505)	(1309)	(1177)	(1132)
personnel	(920)	(986)	(1039)	(1206)	(1251)	(1269)	(1262)	(1283)	(1315)	(1411)	(1595)	(1633)	(1596)	(1634)	(1818)	(1988)	(2144)	(2343)	(2384)	(2342)	(2339)	(2563)	(2578)	(1,972)	(2,206)	(2,363)	(2,550)	(2,506)
Marketing								(621)	(665)	(751)	(867)	(924)	(775)	(863)	(948)	(1097)	(1261)	(1347)	(1279)	(1216)	(1267)	(1358)	(1245)	(790)	(1,006)	(1,082)	(1,204)	(1,051)
Maintenance & rent								(247)	(249)	(296)	(364)	(396)	(374)	(426)	(487)	(604)	(703)	(843)	(938)	(1026)	(1044)	(1080)	(1096)	(836)	(899)	(988)	(1,057)	(1,023)
other direct costs								(216)	(233)	(259)	(334)	(348)	(250)	(281)	(287)	(295)	(313)	(304)	(291)	(242)	(236)	(315)	(284)	(195)	(270)	(320)	(380)	(353)
other expenses	(677)	(712)	(787)	(1131)	(1116)	(1063)	(1038)	(101)	(30)	(90)	(55)	(131)	(34)	(111)	(47)	(177)	(65)	(150)	(61)	(169)	(60)	(97)	(55)	(62)	(249)	(116)	(75)	(213)
OVERHEAD	(1,597)	(1,698)	(1,826)	(2,337)	(2,367)	(2,332)	(2,300)	(2,468)	(2,492)	(2,807)	(3,215)	(3,432)	(3,029)	(3,315)	(3,587)	(4,161)	(4,486)	(4,987)	(4,953)	(4,995)	(4,946)	(5,413)	(5,258)	(3,855)	(4,630)	(4,869)	(5,266)	(5,146)
EBITDA	596	641	715	908	845	842	810	863	934	1,168	1,440	1,422	1,123	1,658	1,843	2,239	2,618	2,110	1,855	1,242	1,478	1,648	1,503	515	1,459	1,565	1,581	720
D&A	(188)	(199)	(204)	(225)	(201)	(210)	(216)	(218)	(199)	(195)	(204)	(220)	(220)	(222)	(229)	(261)	(304)	(358)	(404)	(437)	(476)	(494)	(480)	(463)	(438)	(407)	(390)	(416)
OPERATING RESULT	408	442	511	683	644	632	594	645	735	973	1,236	1,202	903	1,436	1,614	1,978	2,314	1,752	1,451	805	1,002	1,154	1,023	52	1,021	1,158	1,191	304
Gross margin	73.1%	72.7%	71.4%	77.3%	78.0%	79.8%	80.1%	80.5%	78.5%	79.9%	80.8%	81.4%	78.7%	79.1%	79.0%	79.0%	77.9%	78.8%	79.3%	79.3%	79.2%	81.2%	80.4%	75.9%	79.4%	82.5%	85.1%	83.2%
EBITDA margin	19.9%	20.0%	20.2%	21.7%	20.6%	21.2%	20.9%	21.0%	21.5%	23.6%	25.1%	24.1%	21.4%	26.5%	26.9%	27.9%	29.2%	23.6%	21.7%	15.9%	18.3%	19.0%	17.9%	9.0%	19.2%	20.2%	19.7%	10.3%
marketing to sales								15.6%	15.5%	15.6%	15.4%	16.3%	15.1%	14.1%	14.0%	14.1%	14.9%	15.5%	15.1%	16.1%	15.9%	16.0%	15.1%	14.1%	13.8%	14.4%	15.3%	15.6%

CHF million	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
inventory y/end	951	1103	1109	1216	1361	1442	1481	1615	1724	1877	2273	2738	2743	2869	3671	4407	5426	5943	6151	6259	6318	6917	6852	6917	6852	6873	7309	7641
finished goods	342	451	349	283	344	403	442	477	565	591	650	999	985	1141	1407	1658	2246	2659	2959	3109	3260	3474	3625	3342	3441	3499	3565	3918
net writeoffs																		23	32	41	39	45	41	48	50	43	50	39
receivable	489	554	658	702	679	670	662	646	707	750	875	733	761	716	894	1060	1073	1108	991	903	1076	893	838	893	838	663	672	612
days	60.1	63.5	68.3	62.0	61.2	62.2	63.1	59.2	60.1	56.8	56.6	47.1	54.0	42.8	48.2	49.6	46.3	46.4	42.8	43.6	49.3	38.5	37.1	58.3	41.8	32.3	31.1	33.2
days inventory	435	463	402	474	559	661	708	761	682	708	767	948	915	822	942	984	1,059	1,177	1,286	1,460	1,396	1,584	1,548	1,874	1,662	1,916	2,267	2,464
years	1.2	1.3	1.1	1.3	1.5	1.8	1.9	2.1	1.9	1.9	2.1	2.6	2.5	2.3	2.6	2.7	2.9	3.2	3.5	4.0	3.8	4.3	4.2	5.1	4.6	5.3	6.2	6.8
cash flow capex	183	239	187	220	227	229	204	292	187	236	350	305	220	265	365	438	574	1040	602	504	396	437	399	208	251	339	730	503
intangibles	18	23	30	11	43	48	25	15	19	39	27	19	25	26	28	39	48	48	47	35	46	44	47	41	44	48	55	46
TOTAL	201	262	217	231	270	277	229	307	206	275	377	324	245	291	393	477	622	622	1087	539	442	481	446	249	295	387	785	549
Average personnel	16,678	18,262	17,751	19,284	20,087	20,568	20,707	20,831	20,730	20,572	22,505	24,269	23,727	24,240	26,777	28,942	31,114	34,492	35,783	35,827	35,057	36,074	36,596	33,870	31,503	31,379	32,693	33,230
cost/staff (CHF)	55,162	53,992	58,532	62,539	62,279	61,698	60,946	61,591	63,435	68,588	70,873	67,287	67,265	67,409	67,894	68,689	68,908	67,929	66,624	65,370	66,720	71,048	70,445	58,223	70,025	75,305	77,998	75,414
R&D		96	105	135	117	139	157	153	144	140	155	161	149	151	160	178	184	187	205	219	221	225	251	223	245	246	275	273

Long term financial analysis

We have reproduced selected historic financial analysis for a 27year period from 1997. That may seem like overkill, but it does **illustrate the remarkable stability** of numerous indicators of performance within the group, brought about by the strategies of Hayek father and son.

Notably:

- marketing spends of CHF1.0bn to 1.3bn per annum;
- recent overhead expenses of ~ CHF5.0bn – CHF5.3bn including marketing;
- exceptionally stable gross margin averaging exactly 79% over the period;
- strong control of receivables since 2017, not unrelated to past decisions on supply of movements;
- blow out in inventory levels from the COVID period onwards, which are now at a record high of nearly seven years of which finished good represent over half; and
- variability of capital expenditure reflecting lumpy acquisitions of properties in various years

Swatch Group tends to be about "owning". Owning works across four areas:

- finished goods inventory, especially where Swatch Group operate their own stores rather than a franchise model;
- property – as with other luxury goods companies, Swatch Group wishes to physically own their stores at selected strategic locations but also owns a significant apartment portfolio in and around its watchmaking facilities in Switzerland, as well as some of the buildings themselves;
- vertical integration rather than insourcing componentry – every Swatch Group watch is comprised near 100% of in-house manufactured components, unlike many competitors where movement manufacture is outsourced; and
- other aspects of inventory with the company also manufacturing selected components parts for third parties..

At 30 June 2025, Swatch Group was carrying CHF7.4billion of inventory, marginally down on the CHF7.6billion at 31 December 2024. The group does not give a breakdown at the interim results stage but recent history suggests a rough 50:50 split between finished goods and other categories (semi-finished, in-progress, raw materials and spare parts) suggesting around CHF3.7billion of actual watches and jewellery.

We estimate Swatch (the brand) has around 180 global monobrand stores, that Omega has a further 300 with Longines and Tissot operating around 250 each. A number of these stores across each brand are franchised but there are significant numbers of company operated venues. In H1 CY2025, around 45% of watch and jewellery sales came from the company's OWN retail activities, rather than through wholesalers and other distributors suggesting around CHF1.4billion in the six-month period. Most notably, the company does **not** franchise the 44 Harry Winston boutiques (unlike certain CFR brands) which **each** carry upwards of CHF20million of inventory[40] Hence, if the source comments are accurate, some CHF1billion of the CHF3.7billion finished goods inventory is at just 44 locations. Some elementary arithmetic by reference to inventory suggests most of the monobrand boutiques are company owned, which would account for the very high level of stock.

[40] Interview with Nick Hayek "We sell watches, not stocks" Bilanz (26 September 2024)

Hidden property assets

The Group's property portfolio of land and buildings is carried at ~CHF1.73billion at 31 December 2024, of which investment properties accounted for CHF529million, having been built up significantly over the past ten years. The properties are extremely conservatively accounted for, as can be evidenced from historic and contemporary accounts:

- as long ago as December 2005, land and buildings were carried at CHF478million against historic cost of CHF918million as roughly CHF20million per annum in depreciation was being applied against these assets (not equipment);
- the last time it was disclosed, in 2005, the **insured value** of these land and buildings was CHF1,419million – three TIMES their carrying value and 55% above historic cost; and
- depreciation against land and buildings annually runs at around CHF70million and reached CHF77million in the 2024 year

Since 2004, Swatch has selectively acquired or developed significant buildings at a cost of over CHF800million, for its own use or for investment purposes. The most notable of these structures are tabulated below:

acquired	building	location	comments
2004-2007	Nicholas G. Hayek Center	Ginza, Tokyo (multi-Swatch brand boutiques)	Old building acquired for CHF150million then redeveloped. Est total CHF200m
Nov 2014	"Peterhof" building [**INVESTMENT**]	30 Bahnhofstrasse, Zurich[41]	Built 1913, acquired for est CHF400mn from Credit Suisse. Retail ground floor (Louis Vuitton, Bongénie Grieder) and offices on six floors
H1 CY2023	32-33 Old Bond Street [**INVESTMENT**]	West End, London	CHF120mn (1347sqm) rented to Saint Laurent
October 2023	171 New Bond Street	West End, London	CHF90million – Harry Winston boutique (562sqm)
October 2023	Ave des Champs Elysees	Paris	Small, undisclosed, may be Swatch store at 104 only small part of building.

The CHF529million carrying value of investment properties is fully accounted for by the purchase cost of Zurich and Old Bond Street. Rentals from these buildings are accounted for through "other income" but not explicitly disclosed. In an interview with NZZ[42] in March 2024, cEO Hayek was explicit that "our real estate portfolio is valued at acquisition cost[43] instead of the market value of around 4 billion"

Third party supply issue

For many years Swatch made movements for the entire Swiss watch industry, mainly the ubiquitous "ETA" models. From 2011, in the belief that it was spending excessive resources on supplying its competitors, Swatch reached an agreement with the Swiss Competition Commission (Weko[44]) to marginally reduce supply over two years ahead of negotiating a new deal from 2014.

[41] It is well known that in Geneva, the large Omega outlet at 31 Rue du Rhône is actually owned by the Rolex entity, Marconi Investment SA

[42] "Nick Hayek counters criticism" Neue Zurcher Zeitung (30 March 2024)

[43] It's actually valued BELOW acquisition cost (CHF2,986million) due to depreciation of CHF1,255mn at 31 December 2024.

[44] Abbreviation of "Wettbewerbskommission"

In late 2013, Weko mandated that Swatch had to continue supply after a 10% reduction in 2014, and with gradually stepped down supply arrangements in 2015-2019 until the cessation of obligation in 2019. In a quirky move, in late 2019, Weko then provisionally mandated that ETA NOT sell movements to others, alleging that competing companies required time to build up their order books. Finally, in July 2020, Weko effectively allowed ETA to freely compete in the watch movement market. ETA still supplies selectively (Hermès, Chopard, Chanel – i.e. none owned by CFR or LVMH) but its predominant role has been assumed by two privately owned companies, Sellita and Kenissi.

However, both movement makers are still reliant on one Swatch business – Nivarox-FAR – the leading maker of watch mainsprings and escapement-oscillator assemblies [45]. One of Nivarox-FAR's key competitive advantages is the development of new alloys for the springs, including those with no magnetic properties. In turn, Nivarox requires inventory of highly specialist metals, estimated at CHF100-200million.

Is Swatch a value trap? If so, can it be resolved under the Hayeks?

Equity analysts and many investors have given up believing there is any endgame under the stewardship of the Hayeks. That a further "generation" of the family, in the form of Marc Hayek, Nick's nephew, 15 years his junior, joined the board last year, merely perpetuates the argument. The continuation of the Hayek strategy in H1 CY25 against a very poor backdrop, which reduced effective cash to below CHF1.1billion, caused widespread disillusionment. There has been minor tempering of the pessimism based on comments at the half year about Chinese demand starting to improve, but the past short-term forecasting record of management is not strong.

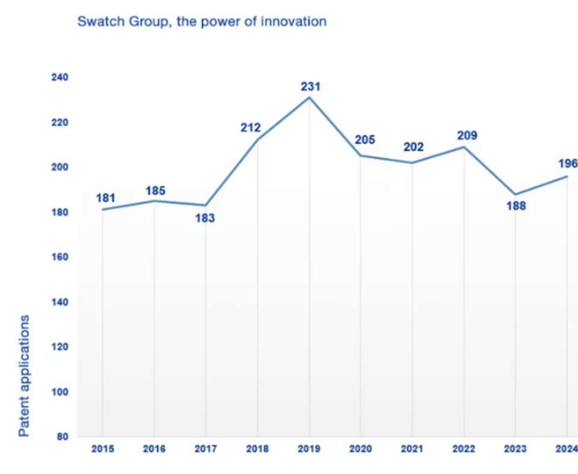
So why do we bother to be investors?

Swatch is unique. The company has amazing brands, some not properly utilised at all, and current management has evidenced adroit marketing skills. The amazing 2022 launch of "Moonswatch" which sold 1million pieces in its first year at US$260apiece, whilst arguably a short-lived sugar hit, does have some medium-term benefits in opening younger markets to a wider product set, and paved the way for other multi-brand collaborations not available to other makers. It suggests there continues to be genuine marketing savvy within the company, allied to ongoing phenomenal design and technology skills.

Insofar as these skills and brands are intangible, investors are not paying for them. The unique nature of Swatch shares, as a luxury participant trading at a **32% discount to NTA** of CHF221/share is compelling. But how is that gap closed up?

We see four factors that could make a serious difference:

- some form of capital management;
- improvement in the Greater China outlook;
- a selected brand revitalisation or even divestment; and
- A change in US tariff environment for Switzerland



[45] The Nivarox website delights in explaining these assemblies comprise 41 parts for a 0.2gram total weight

In the absence of a “moonshot” takeover offer which entices the Hayeks to sell (remembering that whatever the emotion, it’s “only” a single generation legacy dating back to the early-mid1980’s) which in prevailing circumstances could not come from other wider-industry players. The desire of the Hayeks to have management control, in our opinion, dictates against a private equity partnership to remove the group from public quotation, and the controllers will not countenance a leveraged buyout or other debt driven transaction.

However, there is still scope for shareholder friendly action, potentially to free up funds from the investment properties; it is questionable what role they play, as opposed to exclusive buildings carrying Swatch Group product.

At these share prices, the company should be retiring equity. In theory, there is scope to buy up to ~12.67million shares if the Hayek’s do not change their last known holdings, since cancellation of the securities would take the Hayek pool to just under 49% voting control, above which a takeover would be required.

Any buy back would have to be a combination of bearer and registered shares, since it would represent 44% of the bearer shares issued. **A buyback is not unheard of**. Nicholas Hayek bought back stock relatively aggressively from 2004 through to 2008, disbursing CHF1.52billion in equity retirement proceeds. Even Nick Hayek bought back CHF977million worth of stock between 2015-2019 at prices multiples of those prevailing now. To test the capacity for appropriate divestment of the Old Bond Street and Zurich properties in exchange for a far more attractive investment – Swatch shares – unless the group will utilise either property is a business school no-brainer.

There is one other area of underutilised invested capital: certain of the group’s most prestige brands. The Blancpain brand has been used in the “scuba Fifty Fathoms” Swatch collaboration but Breguet has only **two** monobrand outlets in the USA. Whilst both have a long history, they have only been in the Swatch stable since the 1990’s.

The reinvention of Breitling with the initial capital backing of CVC in 2017 supplanted by Partners Group in 2022- at a valuation which is equivalent to 55% of Swatch Group at prevailing prices – is cited by many.

Hence, we view swatch more as a **free option** on a cyclical pick-up in the Chinese consumer, capital management and brand revitalisation from a team well capable of its execution. Near-term earnings prospects look dull, but we have seen in the past how quickly that can change. Given the shares trade at only ~6x EV/2023 EBIT, that’s hardly priced in.

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