# Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2022

Issued on 6 December 2022

## Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland. The Fund size was GBP 335m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 488m. The fund continues to limit capacity by capping the maximum number of units in issue, there is currently a small amount of capacity available due to the natural rate of investor turnover. If you would like to invest when capacity is available through redemptions, please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com. The Fund is managed as an absolute return fund with the objective of generating positive returns irrespective of market conditions rather than performing relative to any benchmark index.

## Performance as at 30 November 2022

| | Share Class[2] | | | | |
|---|---|---|---|---|---|
| | **GBP A £** | **GBP A €** | **GBP B** | **EUR A** | **EUR B** |
| NAV per Share[1] | 160.65 | 185.80 | 27.15 | 26.62 | 26.74 |
| | % Change | | | | |
| November 22 | 3.0 | 2.3 | 3.0 | 2.9 | 2.9 |
| 2022 to date | 2.6 | -0.4 | 2.6 | 0.2 | 0.2 |
| Annualised return[3] | 12.4 | 11.4 | 8.8 | 8.6 | 8.7 |
| Since launch[3] | 1536.8 | 1219.3 | 171.5 | 166.2 | 167.4 |

[1]Source: Administrator, Net Asset Value.
[2]Source: Administrator, Net Asset Value, net income reinvested.
[3]Since inception of GBP A share class on 27/01/99 to date, GBP B share class on 19/01/11 to date, EUR A and EUR B share classes on 31/01/11 to date.
Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Comments below on performance refer to GBP NAV per share unless otherwise stated, exclude cash returns and are prior to expenses.

The Fund's NAV increased by 3.0% in November. The long book contributed 7.0% while the short exposure cost the fund 3.1%. The Fund's largest long position in STO SE & Co KGaA rose by 19% and was our top contributor adding 111bps. This was supported by an inline trading update and a confirmation of its 2022 guidance. UP Global Sourcing Holdings Plc rose by 39% and contributed 85bp due to reporting solid, inline full-year results. Vossloh AG rose 16% during the month contributing 55bps to NAV with the stock continuing to benefit from a good third quarter trading update. In a busy reporting month, we would also highlight BFF Bank SpA, EVS Broadcasting SA, Ordina SA and SoftwareOne who all reported solid numbers. Dr. Martens Plc was the largest detractor falling 17% and costing the fund 62bps as it reported first-half results and reduced guidance by circa 12% due to some weak trading recently in its direct-to-consumer side. This was disappointing, although we still feel the medium-term growth story is intact and the circa 30% fall in the share price since seems very harsh. Finally, Semcon AB exited the portfolio after being acquired at a price of SEK 157 by Ratos AB, which we felt was close to fair value.

## Top Five Contributors and Detractors for November 2022

| Contributors | MTD (bp) |
|---|---|
| STO SE & Co KGaA | 111 |
| UP Global Sourcing Holdings Plc | 85 |
| Vossloh AG | 55 |
| JD Sports Fashion Plc | 44 |
| Headlam Group Plc | 31 |

| Detractors | MTD (bp) |
|---|---|
| Dr Martens Plc | -62 |
| Hong Kong software company | -52 |
| German renewable energy equipment company | -48 |
| US education company | -48 |
| Norwegian energy machinery supplier | -40 |

## Top Five Long Holdings as at 30 November 2022

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| STO SE & Co KGaA | Germany | Materials | 6.5 |
| Vossloh AG | Germany | Industrials | 3.7 |
| IG Group Holdings Plc | United Kingdom | Financials | 3.4 |
| Mobilezone Holding AG | Switzerland | Consumer Discretionary | 3.2 |
| Dr Martens Plc | United Kingdom | Consumer Discretionary | 3.2 |
| | | | 20.0 |

## Exposures as at 30 November 2022

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 88.9(86.9) | 44.0(40.1) | 132.9(127.0) | 44.9(46.8) |

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis. All calculations are subject to the impact of rounding.

## Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 November 2022

| Country | Gross% | Net% |
|---|---|---|
| United Kingdom | 42.3 | 21.3 |
| Germany | 34.4 | 21.6 |
| Switzerland | 10.9 | 1.2 |
| Sweden | 7.5 | -3.0 |
| United States | 7.1 | -4.5 |
| Italy | 6.5 | 1.5 |
| France | 4.4 | 2.9 |
| Austria | 4.2 | 2.0 |
| Norway | 3.9 | -1.5 |
| Belgium | 3.1 | 3.1 |
| Netherlands | 2.5 | 1.5 |
| Finland | 1.5 | -0.7 |
| Spain | 1.2 | 0.8 |
| Hong Kong | 1.1 | -1.1 |
| Other | 2.4 | -0.2 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >£2bn | 27.6 | 7.2 |
| £700m - £2bn | 37.9 | 7.3 |
| £200m - £700m | 45.1 | 13.7 |
| <£200m | 22.2 | 16.7 |

| Positions | Nov | Oct |
|---|---|---|
| Long | 87 | 91 |
| Short | 90 | 90 |
| Longs Opened | 2 | 6 |
| Longs Closed | 6 | 1 |
| Shorts Opened | 6 | 5 |
| Shorts Closed | 6 | 4 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 5.3 | 0.3 |
| Consumer Discretionary | 40.2 | 13.6 |
| Consumer Staples | 4.4 | -2.9 |
| Energy | 0.0 | 0.0 |
| Financials | 8.8 | 8.6 |
| Health Care | 4.5 | -0.5 |
| Industrials | 26.9 | 8.6 |
| Information Technology | 22.4 | 2.0 |
| Materials | 14.3 | 10.5 |
| Real Estate | 6.1 | 4.6 |
| Utilities | 0.0 | 0.0 |
| Other | 0.0 | 0.0 |

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

## Moneysupermarket.com Group Plc – UK price comparison company (1.4% of NAV)

Moneysupermarket.com (MSM) is a GBP 1bn market capitalised, UK listed domestic company operating leading price comparison sites for insurance, money, home services and other products. Founded in 1993 as a mortgage listings business, the company has evolved into a marketplace business model, efficiently matching consumers with providers. Over many years it has built a very strong reputation with the UK consumer and deep ties with financial service institutions which act as high barriers to new entrants. Its platform marketplace is a capital light business model enabling it to generate high returns on net operating assets averaging around 40% over the last ten years and sustainable operating margins of close to 30% resulting in consistent high free cash flows. Over the last two and a half years MSM was confronted with several headwinds which triggered a strong derating of the shares. As we think these headwinds are only temporary and we get paid for waiting given its healthy dividend yield of 6%, we are excited to be able to invest in this strong and robust business which trades not far from its price when it was initially listed 15 years ago.

The business has not changed a lot over many years and is simple; customers look for good prices and providers seek new customers. Price comparison websites (PCW) provide an efficient sales channel and MSM usually receives a fixed fee once a contract is signed. Customers on the other side want to compare products looking for the best price and PCW represent a transparent and efficient way to do that. In the UK there are three major players in this industry and MSM benefits greatly from the 2012 acquisition of MoneySavingExpert due to the enhanced credibility it brings with Martin Lewis as its ambassador. Before the Coronavirus crisis hit, the company was generating revenues close to GBP 390m and a net operating profit after tax (NOPAT) of around GBP 95m. Last year MSM revenues were GBP 317m and NOPAT of around GBP 60m. Half of its revenues come from the most important vertical, Insurance, followed by Money with around 20% and the remaining split between Home Services and others. MSM was severely impacted by the pandemic and even more so by the current energy price crisis. In both cases one vertical was hit so hard that it came to a complete standstill. This was the case for the smaller vertical in Travel and Travel Insurance price comparison and is still the case for Energy. 2022 is the first year without any revenues from the Energy segment due to the measures taken by the UK government, introducing an Energy Price Guarantee, which erased all switching business.


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We estimate Energy represented around GBP 50m revenues with good profitability. Interestingly, even though revenues in the Homes Services segment more than halved, it remains very profitable given broadband and mobile continue to perform well. Another headwind is the new FCA pricing regulation for car and home insurance which was introduced at the beginning of this year. It will increase customer retention rates with insurers and decrease switching activity giving that pricing for first time customers must mirror the pricing of existing customers. While this had a strong initial impact on the first half-year with volumes down double digits, it is encouraging to see that the third quarter had only single digit declines.

Despite these severe headwinds persisting the company grew revenues strongly in the first 9 months by 24% to GBP 295m and by 15% if we exclude last year's acquisition of Quidco, the number two player in cashback on online spending. Growth has been driven by its Money (loans & credit cards) and Travel channels. MSM reports only detailed half-year numbers which were also respectable with revenues of GBP 193m up 19% and operating profit growing in parallel. For the full-year we expect revenues to increase to close to GBP 390m and estimate NOPAT of around GBP 80m. This positive development was supported by an efficiency program over the last 2 years which was introduced by the new CEO, Peter Duffy, after he joined in September 2020. Having worked as CEO of Just Eat, and having also spent 7 years with easyJet, he implemented a shared scalable platform across all verticals which significantly reduced redundancy and enabled MSM to operate on a like-for-like basis with a 20% lower workforce. We think the operational performance of MSM, even with severe headwinds, is proof of the high quality of its business model. Another proof point of its resilience is the unsuccessful entry of Google in the UK a decade ago and we think it will be similar with the recently announced entry of Amazon selling home insurance online through partnerships with three local insurers. The high quality of its business model is also evident in its dividend policy. Since its initial public offering in 2007 MSM always paid a dividend distributing a total of 150.88p which compares to a current share price of 190p.

We think the current valuation is out of sync with its very strong and robust business model and therefore believe there is a tremendous mismatch between the quality on offer and the price we pay. Based on our estimate of this year's net operating profit it trades on 14 times enterprise value/NOPAT with very little leverage of around GBP 70m net debt coming from the Quidco acquisition. Due to its low capital intensity the shares boast a 7% free cash flow yield enabling it to pay sufficient dividends. For the next twelve months we see upside of more than 30% valuing the shares on a more prudent 16 times our estimate for next year's NOPAT of close to GBP 90m. In the medium-term we see significantly more upside once energy prices normalise, and we think a return of this vertical to previous levels would imply 30% higher operating profits for the group. We are in good company with our view having seen industry insiders building a stake of 8% over the last twelve months and would not be surprised if private equity gets involved if the share price stays around current levels.


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## Monthly percentage return for the GBP A shares

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022** | 1.1 | -2.6 | 0.2 | 1.4 | -0.9 | 0.7 | -3.1 | 1.8 | -1.2 | 2.2 | 3.0 | | **2.6** |
| **2021** | -5.2 | 1.7 | 4.5 | 4.7 | 3.4 | 1.0 | 2.8 | 0.7 | -0.1 | -1.8 | 1.8 | 1.5 | **15.8** |
| **2020** | -2.4 | -2.8 | -5.7 | -0.8 | -1.6 | 4.0 | -3.8 | -2.5 | 0.8 | -3.1 | 9.6 | 4.5 | **-4.8** |
| **2019** | 1.4 | -0.2 | 1.5 | 0.7 | 2.2 | -0.7 | 0.6 | 0.6 | 0.6 | 0.2 | -1.4 | 1.2 | **6.9** |
| **2018** | -2.0 | -0.8 | 0.0 | 0.7 | 0.9 | 2.0 | 0.3 | 1.1 | 0.3 | -1.0 | 2.3 | 0.2 | **4.0** |
| **2017** | 1.2 | -0.2 | 0.9 | 1.0 | 2.2 | -0.6 | 2.7 | 1.5 | -1.2 | -1.2 | 0.4 | 2.6 | **9.6** |
| **2016** | 2.2 | 2.8 | 0.9 | 0.4 | -1.2 | 2.3 | 1.3 | 2.3 | 1.6 | 1.9 | -2.7 | 1.9 | **14.5** |
| **2015** | -0.7 | -3.1 | 0.0 | 2.2 | 2.2 | 0.8 | 1.9 | 0.8 | 0.5 | 0.5 | 0.7 | 3.8 | **9.7** |
| **2014** | 1.1 | 0.5 | 2.9 | 1.5 | -1.4 | -2.0 | 0.2 | 1.1 | -0.2 | 0.8 | 2.0 | -0.2 | **6.4** |
| **2013** | 6.5 | 2.7 | 1.5 | -0.9 | 1.8 | -0.9 | 2.8 | 1.2 | 1.6 | 4.2 | 1.2 | 2.3 | **26.6** |
| **2012** | 0.5 | 2.8 | 0.0 | -1.4 | -1.9 | 1.6 | -2.0 | 2.5 | -0.1 | 2.9 | 2.6 | 0.7 | **8.4** |
| **2011** | 2.9 | 0.5 | 5.3 | 0.5 | -0.2 | 4.4 | -0.7 | -0.2 | -0.2 | 2.9 | -4.0 | -1.4 | **9.8** |
| **2010** | 0.9 | 3.0 | 2.0 | 1.0 | -1.6 | -0.3 | 2.4 | -1.5 | 3.4 | 2.3 | -0.4 | 6.0 | **18.4** |
| **2009** | -3.7 | -1.6 | -2.1 | -6.5 | 4.0 | -2.5 | 0.3 | 4.5 | 7.0 | -1.1 | 2.0 | -0.9 | **-1.6** |
| **2008** | -1.4 | 3.4 | 0.1 | 1.8 | -0.5 | -2.9 | -0.2 | 1.5 | -8.5 | -7.6 | 2.1 | 7.5 | **-5.7** |
| **2007** | -2.2 | 1.3 | 2.4 | 2.9 | 0.5 | 1.5 | 0.5 | -1.5 | 1.4 | -0.3 | -0.9 | 3.4 | **9.1** |
| **2006** | 4.0 | 2.3 | 4.8 | 4.2 | -3.9 | -4.0 | -0.7 | -1.4 | -0.8 | 1.4 | 1.0 | 1.7 | **8.4** |
| **2005** | 3.2 | 4.2 | 0.4 | -2.4 | 2.1 | 4.7 | 6.6 | 3.2 | 3.3 | -5.2 | 2.5 | 4.9 | **30.4** |
| **2004** | 2.8 | 2.7 | -0.5 | 2.1 | -1.5 | 4.6 | -0.9 | 1.5 | 1.7 | 1.9 | 2.8 | 4.4 | **23.5** |
| **2003** | -1.5 | 2.8 | 1.4 | 4.9 | 4.7 | 0.0 | 3.3 | 1.5 | 2.2 | 0.9 | 2.1 | 3.8 | **29.3** |
| **2002** | 1.3 | 2.2 | 3.2 | 1.5 | 2.7 | -1.0 | -5.3 | 0.6 | -4.1 | 3.3 | 2.5 | -0.5 | **6.2** |
| **2001** | 2.4 | 0.7 | -7.8 | 2.2 | 1.4 | -0.7 | 0.4 | 1.8 | -4.6 | 0.9 | 2.7 | 2.8 | **1.5** |
| **2000** | 11.8 | 20.7 | -0.3 | -4.6 | 2.5 | 1.8 | 1.0 | 0.1 | -2.5 | -3.0 | 2.6 | 3.2 | **35.7** |
| **1999** | -0.3 | 1.0 | 0.8 | 6.6 | 1.4 | 3.3 | 4.6 | 1.4 | -1.8 | 2.6 | 8.6 | 13.4 | **49.0** |


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