# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of December 2022

Issued on 6 January 2023

## 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 333m as at 30th December. Total assets under management by Ennismore Fund Management were GBP 492m. 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 December 2022

| | **Share Class[2]** | | | | |
|---|---|---|---|---|---|
| | **GBP A £** | **GBP A €** | **GBP B** | **EUR A** | **EUR B** |
| NAV per Share[1] | 162.33 | 182.96 | 27.43 | 26.29 | 26.41 |
| | % Change | | | | |
| December 22 | 1.0 | -1.5 | 1.0 | -1.2 | -1.2 |
| 2022 | 3.7 | -1.9 | 3.7 | -1.0 | -1.0 |
| Annualised return[3] | 12.4 | 11.3 | 8.8 | 8.5 | 8.5 |
| Since launch[3] | 1554.0 | 1199.2 | 174.3 | 162.9 | 164.1 |

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 1.0% in December. The long and short book contributed 0.7% and 0.6% respectively. Our short position in a US listed Chinese education company cost us 91bps. There was no news specific to the stock although the Chinese government did announce a further tightening of government regulations for the tutoring industry. December was a quiet month for reporting. SThree Plc, a staff recruiter, reported a robust fourth quarter trading update with total fee income growth of 9%, particularly supported by the contracting side of the business.

## Top Five Contributors and Detractors for December 2022

| Contributors | MTD (bp) |
|---|---|
| UP Global Sourcing Holdings Plc | 43 |
| EVS Broadcast Equipment SA | 28 |
| UK online retailer | 27 |
| Secure Trust Bank Plc | 26 |
| Swedish software company | 26 |

| Detractors | MTD (bp) |
|---|---|
| US listed Chinese education company | -91 |
| US listed Chinese aerospace company | -45 |
| Dr Martens Plc | -20 |
| UK online retailer | -17 |
| German renewable energy equipment company | -16 |

## Top Five Long Holdings as at 30 December 2022

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| STO SE & Co KGaA | Germany | Materials | 6.5 |
| Vossloh AG | Germany | Industrials | 3.6 |
| UP Global Sourcing Holdings Plc | United Kingdom | Consumer Discretionary | 3.4 |
| EVS Broadcast Equipment SA | Belgium | Information Technology | 3.4 |
| IG Group Holdings Plc | United Kingdom | Financials | 3.2 |
| | | | 20.1 |

[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.

## Exposures as at 30 December 2022

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 88.9(88.9) | 43.7(44.0) | 132.5(132.9) | 45.2(44.9) |

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 December 2022

| Country | Gross% | Net% |
|---|---|---|
| United Kingdom | 42.3 | 21.4 |
| Germany | 34.6 | 21.3 |
| Switzerland | 10.8 | 1.0 |
| United States | 8.0 | -5.6 |
| Sweden | 7.5 | -2.6 |
| Italy | 6.6 | 1.7 |
| France | 4.0 | 2.7 |
| Austria | 4.0 | 2.1 |
| Norway | 3.9 | -1.5 |
| Belgium | 3.4 | 3.4 |
| Netherlands | 2.4 | 1.6 |
| Finland | 1.5 | -0.7 |
| Spain | 1.3 | 0.9 |
| Hong Kong | 1.1 | -1.1 |
| Other | 1.1 | 0.6 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >£2bn | 25.5 | 2.5 |
| £700m - £2bn | 38.3 | 12.7 |
| £200m - £700m | 47.0 | 11.8 |
| <£200m | 21.8 | 18.3 |

| Positions | Dec | Nov |
|---|---|---|
| Long | 84 | 87 |
| Short | 89 | 90 |
| Longs Opened | 0 | 2 |
| Longs Closed | 3 | 6 |
| Shorts Opened | 5 | 6 |
| Shorts Closed | 6 | 6 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 4.6 | 1.0 |
| Consumer Discretionary | 39.5 | 12.8 |
| Consumer Staples | 4.9 | -3.3 |
| Energy | 0.0 | 0.0 |
| Financials | 9.0 | 9.0 |
| Health Care | 4.2 | -0.8 |
| Industrials | 27.0 | 8.6 |
| Information Technology | 22.8 | 2.2 |
| Materials | 14.3 | 10.8 |
| Real Estate | 6.3 | 4.9 |
| 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.

## Coor Service Management Holding AB – Swedish facility management company (1.0% of NAV)

Coor is a SEK 6.2bn market capitalised company listed in Sweden that offers clients in the Nordics single facility management services (40% of 2021 revenues) and integrated facility management services (60%) where multiple services are provided, such as cleaning, property and office services, food and beverage, security etc. Attracted by the strong cash generative nature of the business and the high returns on capital it generates, we have been following the stock for a couple of years and the recent share price decline following the release of the third quarter results has finally given us the opportunity to build a position in this resilient, high-quality business whose share price has, in our opinion, been overly punished by the market.

The Nordic facility management market is worth around SEK 400bn, of which about half is outsourced. This SEK 200bn outsourced market is a very fragmented, 2-3% annual growth market in which Coor has a circa 3% share and acts as a consolidator, regularly acquiring smaller players to add competences to the range of services offered or to add geographic density in order to increase efficiency when services are provided. Only SEK 15bn out of the total SEK 200bn outsourced is represented by integrated services, and they are growing at around 5% per year thanks to more and more companies bundling single services into integrated contracts. This market segment is very consolidated and has high barriers to entry, with only very few players capable of managing the complexity of providing integrated facility management services. As such Coor has a market share of around 40%, similar to that of their key competitor ISS.

In addition to its strong market positioning within the integrated facility management services market, we also like the defensiveness and predictability of Coor's business model. In fact, 70% of sales are recurring and based on long-term contracts, with an estimated 85% of them having automatic cost inflation pass through clauses, which should provide good protection to margins in the current inflationary environment. Moreover, 30% of the services that Coor offers are outsourced to third party providers, making it easier for the company to adjust capacity in case of a decline in demand. This, together with the fact that some clients may turn to outsourcing in an attempt to rationalise their cost base during difficult times, further highlights the defensive profile of the business. With the exception of 2020 when COVID caused an organic decline in Coor's top line of 7%, since the 2015 listing the company has grown organically at 6% per year on average, with acquisitions adding circa 2.5% to that,


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while operating profitability has ranged between 5.0% in 2015 and 6.2% in 2021, including a strong 5.8% in 2020. While we would clearly prefer to see a lower degree of customer concentration given the top 10 clients account for about 45% of sales, Coor's key clients include reputable and established large organisations such as Ericsson, ICA, Volvo, ABB and GN Store Nord. Moreover, 28% of revenues are generated from public sector customers and there is a good degree of end market diversification with the remaining clients. Revenues are similarly diversified by geography, with Sweden accounting for 50% of revenues, followed by Norway at 23%, Denmark at 21% and Finland at 6%.

The share price declined by more than 20% at the end of October on the back of a weak third quarter report. We believe the main issue was a decline in profitability due to a natural lag in implementing price increases and as a consequence of new large contract wins requiring a ramp-up phase that tends to be initially dilutive to margins. We are convinced these issues are temporary in nature and estimate that Coor's adjusted operating profit margin will revert back to levels of around 5.5% in 2023. Therefore, we believe the recent share price decline represents an interesting opportunity to build a position in a resilient, asset light business with high post-tax returns on capital of more than 35% after adjusting for private equity created goodwill. The business is highly cash generative given its structurally negative working capital position, and this, combined with the resilience of the business model, makes us very comfortable with the current net debt position, adjusted for lease liabilities, of SEK 1.3bn, implying a leverage ratio of circa 1.8 times net debt to adjusted earnings before interest, tax, depreciation and amortisation which is well below the company's target of 3.0 times. This leaves room for small bolt-on acquisitions, which historically have been completed at an attractive post-synergy enterprise value to operating profit multiple of around 6 times, while the strong cash generation supports an expected dividend for next year of SEK 4.8 per share, equivalent to a dividend yield of around 7.5%.

We are convinced a resilient cash generative business like Coor, with a dominant position in its market niche and solid mid-single-digit organic growth prospects supported by value creative bolt-on acquisition opportunities should be valued at at least 16 times 2023 enterprise value to net operating profits after tax, which points to an upside to the current share price of circa 20% over the next 12 months.


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## Historical 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 | 1.0 | **3.7** |
| **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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