Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2023

Issued on 6 April 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 311m as at 31st March. Total assets under management by Ennismore Fund Management were GBP 472m. 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 31 March 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	157.02	178.70	26.53	25.68	25.80
	% Change				
March 23	-0.4	-0.7	-0.5	-0.7	-0.7
2023 to date	-3.3	-2.3	-3.3	-2.3	-2.3
Annualised return[3]	12.2	11.1	8.3	8.1	8.1
Since launch[3]	1499.9	1168.9	165.3	156.8	158.0

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 decreased by 0.4% in March. The long book cost 0.5% while the short book contributed 0.1% to the Fund. The fund's largest holding, STO SE & Co KGaA, rose 14% during the month on no news contributing 78bps of performance. Costain Group Plc reported a good set of full year results with particularly impressive cash generation adding 63bps of performance. We still feel the stock is hugely undervalued. The US listed Chinese education company, which we are short, cost the Fund 90bps on no positive news and we continue to see insider selling. We reduced the size of this position during the month. The short in a German renewable energy equipment company cost the Fund 56bps due to upgraded estimates for the year, although we feel the share price is more than pricing in the long-term opportunity for their products. Mobilezone Holding AG cost the Fund 51bps after it reported results and guidance below our forecasts due to the weakening consumer environment, however we still think the valuation is very undemanding. IG Group Holdings Plc cost the Fund 46bps after it issued a third quarter update which showed a weaker year-on-year trend than shown recently. This wasn't so surprising, and we still think the company will continue to take market share and the shares to be very cheap.

March was a very busy reporting month for our holdings. Vossloh AG reported good results and gave confident guidance with better growth and inline earnings. Gruppo Mutuionline SpA reported inline results with a strong growth outlook given last year's acquisitions. The surprisingly reduced dividend is not of concern for us as we think it is precautious in the current environment. Cegedim SA reported weaker full year results but gave a very confident guidance with 10% revenue growth and better operating profits. SoftwareOne Holding AG saw a slowdown in Microsoft product sales in December, which we expect to impact the first quarter as well, before recovering into the second half of the year. We had many other holdings reporting results during the month with Coats Group Plc, Just Group Plc, Secure Trust Bank Plc and UP Global Sourcing Holdings Plc all particularly reassuring overall.

Top Five Contributors and Detractors for March 2023

Contributors	MTD (bp)
STO SE & Co KGaA	78
Costain Group Plc	63
Swiss online retailer	35
Fielmann AG	31
US software company	28

Detractors	MTD (bp)
US listed Chinese education company	-90
German renewable energy equipment company	-56
Mobilezone Holding AG	-49
IG Group Holdings Plc	-46
UK online retailer	-29

Top Five Long Holdings as at 31 March 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.2
Vossloh AG	Germany	Industrials	3.9
EVS Broadcast Equipment SA	Belgium	Information Technology	3.3
IG Group Holdings Plc	United Kingdom	Financials	3.3
Costain Group Plc	United Kingdom	Industrials	3.3
			20.1

Exposures as at 31 March 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
88.1(87.3)	52.4(47.6)	140.5(134.9)	35.7(39.7)

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 31 March 2023

Country	Gross%	Net%
United Kingdom	41.2	18.3
Germany	37.2	23.3
Switzerland	14.1	-2.3
Sweden	9.5	-4.4
United States	8.6	-7.2
Italy	8.2	1.1
France	4.4	3.3
Norway	3.9	-1.1
Belgium	3.3	3.3
Austria	3.1	1.4
Netherlands	1.8	1.1
Finland	1.2	-1.2
Portugal	1.1	1.1
Hong Kong	1.1	-1.1
Spain	1.0	0.4
Other	0.7	-0.2

Market Cap	Gross%	Net%
>£2bn	28.3	-2.7
£700m - £2bn	44.9	4.5
£200m - £700m	47.1	16.7
<£200m	20.2	17.2

Positions	Mar	Feb
Long	77	78
Short	90	84
Longs Opened	2	1
Longs Closed	3	2
Shorts Opened	11	2
Shorts Closed	5	8

Sector	Gross%	Net%
Communication Services	4.2	0.5
Consumer Discretionary	37.8	6.1
Consumer Staples	4.3	-2.6
Energy	0.0	0.0
Financials	11.3	11.3
Health Care	4.5	-0.8
Industrials	34.6	6.0
Information Technology	23.6	-0.4
Materials	15.3	10.8
Real Estate	4.9	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.

Washtec AG – German machinery manufacturer (0.6% of NAV)

Washtec is a EUR 530m market capitalised German manufacturer of car washing products, including rollovers, wash tunnel conveyor systems and jet washes. We have followed the company for many years and have in fact been shareholders twice since the 1997 public listing, having previously bought shares in 2004 and 2010. The company came back onto our radar screen a couple of years ago and the price decline that the shares experienced between mid-2021 and today has finally given us the opportunity to invest again in this interesting story. We believe Washtec exhibits many likeable characteristics, including a dominant market position in Europe, an interesting growth opportunity in North America, historically high post-tax returns on capital of around 20% and good cash generation, and we are also convinced that the operating margin decline that the company faced in 2022 will prove to be temporary, making it a good time for investors to look at this under-researched company.

The Washtec product range comprises all types of washing equipment as well as the associated peripheral components, washing chemicals and water reclaim systems, and the company is the global market leader with an installed base of 40k units. Washing equipment accounts for 87% of the EUR 482m revenues the company reported in 2022 and includes machinery but also services and spare parts which, together with the 12% of sales represented by chemicals, makes about one third of the business recurring. About 45% of the company revenues are generated by key accounts, including global petrol companies and large car dealerships, with the largest customer accounting for slightly more than 10% of total sales. Europe represents 74% of external revenues, and the company is the clear market leader in the region with an estimated share of around 35%, significantly higher than that of key competitors Christ and Istobal, especially in the key German and French markets which represent circa 40% of total sales. While Europe is a consolidated, oligopolistic market, North America, which accounts for 22% of sales, is much more fragmented and Washtec commands a 15% market share there. Washtec's lack of scale in North America is reflected in an operating profitability which is in the low to mid single digit levels, compared to the double digit margins achieved in Europe. We believe this gap will converge as the company continues to grow strongly in the region, and we expect profitability there to move towards the healthy levels achieved by Europe over time.

Not only do we like the strong competitive position the business has in Europe, but we also believe it is very sustainable. In fact, the industry is characterised by strong barriers to entry represented by the importance of a wide and efficient service network: car wash operators are focussed on minimising machine downtime, so the ability of a supplier like Washtec to provide quick and reliable service, repair and spare parts is a clear competitive advantage that is difficult to replicate. Washtec's management is well aware of this, and we believe they are doing the right thing by investing to expand their North American sales and service network. While the company has historically been conservative when it comes to acquisitions and it prioritises organic growth, we believe being a consolidator in the US market would make strategic sense for Washtec, and we would definitely be supportive should management find a strategic target at the right price in the region. The company has a very solid balance sheet with only about EUR 25m in net debt excluding leases, so we are convinced the financing of a potential acquisition would not be a problem. Moreover, while we do not believe technology represents a strong barrier to entry, Washtec is ahead of competition when it comes to digitalising their offering and connecting the machines to the cloud. This gives the company an opportunity to differentiate their products and allow customers to address potential issues more rapidly and to reduce machine downtime.

Thanks to its relatively low fixed asset intensity and working capital needs, Washtec has historically achieved attractive post-tax returns on capital of approximately 20%. In 2022 the business suffered due to a mix of cost increases and low availability of parts and service providers, which caused the operating margin to decline to 7.9% from 10.6% in 2021. Moreover, the company added inventories to be able to fulfil orders and further cement their reputation of being a reliable supplier, which has inflated working capital. We are convinced these issues are temporary in nature, and expect return on capital metrics to gradually move back to around 20% from the 15% achieved last year. In fact, Washtec has already pushed through double-digit percentage price increases to customers, which took time given some contracts, especially with key accounts, tend to have a fixed price formula and therefore required extensive renegotiation. We therefore expect operating profit margins to revert back to a double-digit margin level in 2024 and inventories to be reduced this year, which will help the working capital to sales ratio to come down by a couple of percentage points to circa 21%, in line with 2021. Both these factors will contribute to a significant expected improvement in cash generation, which supports the circa 5.5% dividend yield the shares currently offer.

As it is often the case with many German companies, Washtec's management team does not own a significant number of shares in the company but given the CEO's four year track record we are confident in the trajectory of the business and expect low single digit revenue growth this year as the new CFO's clear focus is on restoring profitability. The shares declined by almost 40% in 2022 and despite being up circa 20% year to date, we believe the market is not pricing in the improving profitability outlook of the company nor the intrinsic quality of the business, potentially helped by the fact that the stock is only covered by three regional brokers. We believe a solid, high return, market leading business on an operating recovery trajectory like Washtec should be valued at 18 times enterprise value to net operating profits after tax, which points to an upside to the current share price of around 30% to the end of 2024.

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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
2023	-2.8	-0.1	-0.4										**-3.3**
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**

[1]Source: Administrator, Net Asset Value, net income reinvested.
[2]Source: Administrator, Net Asset Value.
[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.

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