# Ennismore Global Equity Fund

Investor Newsletter for the month of May 2024

Issued on 7 June 2024

## 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 141m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 491m. The number of shares issued by our funds is capped in order to limit the level of assets under management in each strategy. We currently have capacity available in the Global Equity Fund. If you would like more information or to invest, please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com.

## Performance as at 31 May 2024

| | Share Class[1] | | | | | |
|---|---|---|---|---|---|---|
| | **GBP** | **GBP A** | **EUR** | **CHF** | **EUR I** | **USD I** |
| NAV per Share[2] | 14.75 | 14.67 | 15.04 | 13.74 | 11.23 | 11.59 |
| | | | % Change | | | |
| May 2024 | 2.6 | 2.7 | 2.8 | 3.3 | 2.9 | 2.7 |
| 2024 to date | 6.0 | 5.9 | 7.4 | 15.0 | 6.4 | 5.8 |
| Annualised return[3] | 5.2 | 5.1 | 5.5 | 4.2 | 2.0 | 2.8 |
| Since launch[3] | 47.5 | 46.7 | 50.4 | 37.4 | 12.3 | 15.9 |
| Note: All performance figures net of fees. **Past performance is not a guide to future returns.** | | | | | | |

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

The Fund's NAV increased by 2.7% in May with the long book adding 5.6% and the short book costing 2.1%.

We have maintained an usually large net exposure to the UK for some time now given the substantial number of attractive situations we have found in this unloved market. The UK press has extensively covered the activity of non-UK buyers exploiting this opportunity, and we have benefited from the trend in recent months. Ascential announced the disposal of two of its three business units in autumn 2023, and then International Distributions Services Plc ("IDS", fka Royal Mail Plc) and now Keywords Studios Plc ("KWS") have received approaches this spring. As a result, KWS was the largest contributor for the month, adding 141bps to NAV. It announced a potential cash offer from private equity firm EQT Group ("EQT") at 2,550p per share (KWS shares closed the month at 2,234p). This was EQT's fifth approach and the board announced it would be "minded to recommend" such an offer were it formalised. With low regulatory risk given the fragmented and non-strategic nature of the industry, we see the probability of a deal closing as pretty high. With the shares trading at a significant discount to the possible offer, and the approach valuing the business at 12x EBITDA – a fair if not cheap multiple compared to where KWS shares traded historically, and the valuations for which smaller peers were acquired – we continue to see the risk-reward as attractive. IDS added 76bps after its largest shareholder increased its offer from 320p to 370p per share (IDS shares closed at 336p per share at the end of May). Schibsted contributed another 124bps with roughly a quarter of its market capitalisation paid back as a special dividend to shareholders following earlier divestments.

Equity markets were strong in May overall, with particular strength amongst more speculative parts of the market. The short book detracted from performance for the month in this context. So far this year the short book has been modestly profitable despite a positive market environment and the return of more prominent retail / "meme-stock" activity. We maintain a relatively cautious positioning in the short book with a balanced exposure across deception, structural, balance sheet and over-earning categories.

[1]Source: Administrator, Net Asset Value, net income reinvested.
[2]Source: Administrator, Net Asset Value.
[3]Since inception of GBP, GBP A, EUR and CHF share classes on 03/10/16, EUR I share class on 03/07/18, USD I share class on 02/01/19.

Our net exposure at the end of May was 63.2%, the highest it's been since the Fund's inception. The positioning is much more cautious than this suggests, however, as we have an unusually high proportion of uncorrelated special situation-type positions and names with extremely defensive balance sheets. At month-end 12.5% of the Fund is invested in names involved in either take-private, tender offer, or liquidation scenarios (such as KWS and IDS) which therefore have cash-like (hopefully cash-plus!) characteristics. In addition, 11.7% of the Fund is invested in deep value situations where net cash and liquid securities are a significant proportion (sometimes more than 100%!) of the company's market capitalisation (e.g. Nippon Television, Guardian Capital, BML), which tend to be less susceptible to broader market gyrations. Finally, our beta adjusted net exposure is, as usual, somewhat lower than the headline net exposure suggests: 46.4% at the end of May.

## Top Five Contributors and Detractors for May 2024

| Contributors | bps |
|---|---|
| Keywords Studios Plc | 141 |
| Schibsted ASA | 124 |
| International Distribution Services Plc | 76 |
| Auto Trader Group Plc | 51 |
| Buzzi Unicem SpA | 43 |

| Detractors | bps |
|---|---|
| US electronics retailer | -69 |
| Nippon Television Holdings Inc | -31 |
| US online marketplace | -29 |
| US telecommunications company | -28 |
| Azelis Group NV | -19 |

## Top Five Long Holdings as at 31 May 2024

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| D'Ieteren Group SA | Belgium | Consumer Discretionary | 4.5 |
| Petershill Partners Plc | United Kingdom | Financials | 4.2 |
| International Distribution Services Plc | United Kingdom | Industrials | 3.8 |
| Schibsted ASA | Norway | Communication Services | 3.8 |
| Auto Trader Group Plc | United Kingdom | Information Technology | 3.7 |
| | | | 20.0 |

## Exposures as at 31 May 2024

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 105.6 (98.9) | 42.3 (41.9) | 147.9 (140.9) | 63.2 (57.0) |

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 May 2024

| Country | Gross% | Net% |
|---|---|---|
| United States | 38.7 | -6.7 |
| United Kingdom | 37.6 | 33.9 |
| Japan | 11.9 | 8.1 |
| Canada | 8.4 | 6.1 |
| Norway | 6.6 | 5.5 |
| Belgium | 6.6 | 5.8 |
| Germany | 6.3 | 4.7 |
| Ireland | 4.5 | 4.5 |
| Italy | 3.9 | 2.0 |
| Sweden | 3.8 | -3.3 |
| France | 3.1 | -3.1 |
| Spain | 2.4 | 1.7 |
| Israel | 2.1 | -1.1 |
| Hong Kong | 1.9 | 0.2 |
| Bermuda | 1.8 | 1.8 |
| Mexico | 1.6 | 1.6 |
| Switzerland | 1.5 | -0.2 |
| South Korea | 1.2 | 1.2 |
| Poland | 1.2 | -1.2 |
| Austria | 1.0 | 0.2 |
| Other | 1.8 | 1.4 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >$10bn | 39.2 | 19.2 |
| $5bn - $10bn | 26.8 | 14.8 |
| $1bn - $5bn | 53.9 | 21.2 |
| <$1bn | 27.9 | 8.1 |

| Positions | May | Apr |
|---|---|---|
| Long | 79 | 75 |
| Short | 86 | 94 |
| Longs Opened | 11 | 7 |
| Longs Closed | 7 | 4 |
| Shorts Opened | 9 | 17 |
| Shorts Closed | 17 | 8 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 15.6 | 13.2 |
| Consumer Discretionary | 24.3 | 8.4 |
| Consumer Staples | 9.9 | -0.4 |
| Energy | 2.0 | 2.0 |
| Financials | 25.0 | 19.2 |
| Health Care | 5.8 | -0.5 |
| Industrials | 21.4 | 5.0 |
| Information Technology | 27.0 | 10.3 |
| Materials | 12.1 | 5.5 |
| Real Estate | 4.8 | 0.6 |
| 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.

## Valvoline Inc – American automotive services retailer (1.9% NAV)

*"We don't sell oil changes, we sell time."* – Mary Meixelsperger, Chief Financial Officer of Valvoline, May 16, 2024.

Spin-off and separation events often present compelling investment opportunities as they liberate the emerging company from the parent's control of capital and time. To quote the late Charlie Munger, "Show me the incentive and I will show you the outcome." Freed from the parent, the management team's incentives can be aligned solely with the emerging company's performance, increasing the personal rewards to be had from creating corporate value. Often, the emerging company has a less informed investor base, especially when these events occur across sectors.

Headquartered in Lexington, Kentucky, Valvoline is an operator and franchisor of 1,928 oil change service centres across the United States and Canada. Valvoline is one of the oldest and most trusted brands in automotive services with roots dating back to 1866, when Valvoline's founder, Dr. John Ellis, formulated the world's first petroleum-based lubricant after discovering the lubricating properties of distilled crude oil[1].

Two significant events have shaped Valvoline into its current form:

1. The May 2017 spin-off of Valvoline from specialty chemicals manufacturer, Ashland Global Holdings.
2. The March 2023 sale of Valvoline's branded lubricants business to The Saudi Arabian Oil Company (Aramco) for $2.65bn.

Valvoline has become a pure-play automotive services retailer with significant growth potential, attractive unit economics and a shareholder-friendly capital allocation philosophy.

In the U.S., approximately 470m oil changes are performed annually. Car dealerships and traditional automotive service centres perform 370m (79% volume share), while specialised oil change service centres (referred to by industry experts as "quick lubes") perform 100m (21% volume share), with Valvoline commanding 25% share of the quick lube segment. There are approximately 9,000 quick lubes in the U.S.: Jiffy Lube (a subsidiary of Shell Plc) is the largest with over 2,000 locations, followed by Valvoline. Our conversations with former Valvoline employees indicate that quick lubes are taking share from car dealerships and traditional automotive service centres. Within the segment itself, Valvoline is gaining market share. The offering itself (the oil change) is not differentiated, yet Valvoline's approach to hiring has created a structural cost advantage and its strong culture has led to great customer experiences. In a franchised business model, these advantages can compound.

Valvoline's SuperPro™ oil change process standardises 178 steps across all locations with a focus on speed, service and convenience. Valvoline oil changes are completed within 15 minutes, while customers enjoy an F1-like experience from the comfort of their vehicle with a three-person team showcasing the service using live video. Valvoline charges $39.99 for a basic oil change compared to $29.99 at Jiffy Lube and $18.95 to $33.99 at traditional automotive service centres[2], with car dealerships charging more. Quick lubes are not much more expensive than traditional oil changes yet Valvoline's 15 minute offering saves customers at least 30 minutes.

Valvoline's entry level technicians are hired without previous automotive experience, earning $15 per hour[3] to start, with average technicians earning around $18 per hour[4]. The average Valvoline location completed 51.8 oil changes per day in 2023 or approximately 5 per hour. An average of two technicians per oil change means labour expense is only $7 or so for every $39.99 oil change. As a result of premium oils and cross-selling additional services, Valvoline has been increasing its average ticket over time, leveraging its labour costs further. Competitors including traditional automotive service centers

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[1] Source: https://investors.valvoline.com/news/news-details/2020/Valvoline-to-the-World-We-Are-The-Original/default.aspx#:~:text=John%20Ellis%20founded%20Valvoline%20in,world's%20first%20petroleum%2Dbased%20lubricant
[2] Source: https://carservicecosts.com/oil-change-prices/
[3] https://jobs.vioc.com/service-center-jobs
[4] Source: https://www.indeed.com/cmp/Valvoline-Instant-Oil-Change/salaries/Technician?from=acme-salaries-v2

and car dealerships employ mechanics at more like $25-30 per hour[5], due to their more comprehensive experience and knowledge, who then prioritise complex (expensive and time consuming) repairs, at the detriment of oil changes. Valvoline's strategic decision to empower low-cost labour has enabled it to become a high-volume specialist, differentiating it from price-maximising competitors with larger cost structures.

We are encouraged by Valvoline's culture, which appears to be a key driver of Valvoline's consistently superior customer experience record. Multiple franchisees that we spoke with expressed their excitement for Valvoline's annual "Oilympics", an event where 36 service teams from the US and Canada compete to see who can execute the perfect oil change in the fastest time. Best practices from the winning team are then shared across the store base.

Valvoline's growth has been consistently impressive. Over the last seven years, system-wide sales growth has compounded at 18% annually, driven equally by store growth and sales per store. Management envisions expanding the store base by over 80% to 3,500 stores. Based on our analysis of the number of vehicles per store across the U.S., this goal appears achievable and potentially conservative. The hiring of Brian Tabb in July 2022, Valvoline's Vice President of Real Estate and Construction, underscores the feasibility of this expansion, as he oversaw 320 openings with Wingstop Restaurants and 6,720 openings with McDonald's Corporation.

Discussions with franchisees and former employees reveal some of the most attractive unit economics in retail. Corporate-owned stores cost approximately $2.2m to build, while franchisees target $1.5m. One large franchisee group we spoke with said they expect to remove another $100k from their build cost. After a 1-3 year ramp-up, stores can be expected to generate $1.4-1.5m in revenue at a 30% earnings before interest, tax, depreciation and amortisation (EBITDA) margin, leading to an unlevered cash payback of 6 years for corporate-owned stores and 4.2 years for franchisees.

The acquisition stories we have heard are even more compelling. A different franchisee group we spoke with described their acquisition of an unbranded oil service unit in September 2023 for $400k that was generating $900k in annual sales and $150k in EBITDA. During a conversation in March 2024, we learned that the same unit, now branded as a Valvoline Instant Oil Change center, was generating $1.4m in annualised sales and $400k in EBITDA. This franchisee shared with us "a positive return on cash within 2-3 months and paying for itself in 1 year is very typical of what we are doing with Valvoline".

The franchisee groups we have spoken with seem unconcerned about the looming threat of electric vehicles (EVs). Battery electric vehicles do not require oil changes and represented 7% of light-duty vehicle sales in the U.S. in 2023[6], the highest penetration rate ever. The impact from this transition will be slow, however: the average age of a vehicle served by Valvoline is 6-9 years old and even by 2035, EVs are expected to represent only about 13% of vehicles in operation[7]. In the meantime, Valvoline should continue to gain share from the remaining 95% of the oil change market it does not serve. Valvoline management has also developed new products and services to address EVs including tyre rotations, brake maintenance and wheel alignment services. As more stores offer these services, non-oil change revenue, which currently contributes 1-1.5% to Valvoline's 6-8% same store sales growth, should rise.

With such strong unit economics, we are pleased that Valvoline's capital allocation philosophy balances growth investments and shareholder returns. For fiscal year 2024 (twelve months ending September 30, 2024), Valvoline is expecting to add 140-170 stores and spend $185-215m on capital expenditures, representing 75% of net operating profit after taxes (NOPAT). With the remaining proceeds from the divestiture of its branded lubricants business, Valvoline repurchased $986m of stock at $40.96 per share from January 1 to March 31, 2024.

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[5] Source: https://www.indeed.com/career/automotive-mechanic/salaries
[6] Source: https://www.eia.gov/todayinenergy/detail.php?id=61344
[7] Source: https://www.eia.gov/todayinenergy/detail.php?id=56480#:~:text=According%20to%20our%20Annual%20Energy,%25%20and%2026%25%20of%20on%2D and https://www.eia.gov/outlooks/aeo/tables_ref.php

At $40.50 per share, Valvoline's market capitalisation stands at $5.2bn, with an enterprise value of $6.3bn after accounting for $70m of cash and $1.2bn of debt. In fiscal year 2023, Valvoline generated $157m of levered free cash flow. Over the next eight years, we expect Valvoline to grow free cash flow at a low 20% compounded annual growth rate (CAGR) as it achieves its 3,500 store target which would result in a mid-teens IRR assuming a 15x free cash flow valuation at exit.

We're hopeful that Valvoline's unit growth may come through faster than we are modelling, however. Our conversations with franchisees indicate that large, well-funded franchisee groups, including those backed by private equity firms, are keen to accelerate their pace of expansion with Valvoline due to its attractive unit economics. For instance, Carousel Capital, a North Carolina-based private equity firm with a 28-year track record, acquired Quality Automotive Services, Valvoline's 3rd largest franchisee group, in May 2022. At the time of Carousel Capital's acquisition, Quality Automotive Services operated 114 Valvoline locations across 11 states. As of our conversation in March 2024, the group operated 167 locations and had plans to build 15-30 units per year for the foreseeable future (plus acquisitions).

## Monthly percentage return for the GBP A share class of the Global Equity Fund

| Year | Jan (%) | Feb (%) | Mar (%) | Apr (%) | May (%) | Jun (%) | Jul (%) | Aug (%) | Sep (%) | Oct (%) | Nov (%) | Dec (%) | Annual |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2024 | 3.3 | -3.1 | 1.9 | 1.1 | 2.7 | | | | | | | | **5.9** |
| 2023 | 0.7 | 0.8 | 0.1 | 3.4 | -1.7 | -0.9 | 0.8 | 2.5 | 4.9 | 0.9 | -0.4 | -0.1 | **11.4** |
| 2022 | -1.7 | -3.2 | -3.3 | 3.4 | 0.4 | -5.2 | 4.5 | 0.4 | -0.4 | 0.5 | 4.1 | 6.2 | **5.2** |
| 2021 | -2.6 | 1.4 | 2.7 | 3.0 | 0.7 | -0.9 | 2.2 | 1.2 | 1.9 | -3.9 | 1.7 | 2.3 | **10.0** |
| 2020 | -4.8 | -6.6 | -5.4 | 4.6 | -1.0 | 2.2 | -4.5 | -10.3 | 5.3 | -0.8 | -3.6 | 2.2 | **-21.3** |
| 2019 | 2.9 | 1.0 | 0.3 | 1.7 | -0.2 | 0.5 | 1.0 | 1.8 | 1.9 | 0.0 | -4.5 | 0.8 | **7.3** |
| 2018 | -4.4 | 5.8 | -0.9 | 3.3 | 2.8 | 5.9 | 1.8 | 4.0 | 1.0 | 0.7 | 0.5 | -3.0 | **18.6** |
| 2017 | -0.1 | -1.4 | -1.2 | -2.9 | 1.7 | -1.5 | 1.0 | 3.2 | -2.8 | 1.3 | -1.2 | 5.5 | **1.3** |
| 2016 | | | | | | | | | | 1.3 | -0.8 | 5.3 | **5.8** |

## Risk Warning

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## Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund’s shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.


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