MOI GLOBAL

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EUROPEAN Investing Summit

M17 Capital Management

In search of good long-term opportunities

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M17's general approach to investing

1. We look **to identify upcoming changes to an industry's and company's operating environment**, driven by changes in regulation, legislation, competitive environment, conduct or other external factors, and anticipate the impact of these changes in the company's financial performance before it is reflected in the share price.
2. **We focus on buying well managed, structurally growing companies, operating in niche segments with reasonably strong pricing power and trading on attractive valuations with identifiable catalysts to crystallize underlying upside.**
3. **We actively avoid consensual positions**, preferring to take a contrarian and uncrowded position, provided our stance is justified following extensive financial modelling as well as strategic and operational reasoning.
4. **We strive for diversification not only in the number of securities and industries in the portfolio, but also in the breadth of investment themes used in a market cap-agnostic approach** across several risk categories such as compounders, accelerators, spin-offs, turnarounds, buy-and-build situations, catalyst-oriented situations including management changes, deep value, potential activist candidates, mispriced conglomerates or cyclicals. We think this flexibility is a key advantage relative to managers who focus on a narrower set of frameworks.
5. Additional degrees of freedom are to be **market-cap blind, opportunistic as to sector, FX and geographic exposure** within the investment restrictions of the investment product. Despite this freedom, we ensure there are not too many position overlaps.
6. Each idea has an attributed **time until when the investment case must play out**. Only those ideas who meet our ROIC objectives within our investment time horizon (margin of safety and maximum downside) are considered for our portfolio. In consequence we also apply a "stop loss in time".
7. Risk management is critical. **To compound returns at a high rate, we need to limit drawdowns** ("to finish first, we first have to finish"). So although M17 is willing to establish 7-10% positions, tail hedges to these positions are often established. Additionally, larger positions require a high degree of uniqueness in terms of risk category, lack of crowdedness, overlap of risks and most importantly, an independence in the fundamentals of the investment case.

Source: Team analysis

Our analytical approach

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1 Develop a “living” hypothesis tree

- A strong and coherent hypothesis tree forms the basis of a good understanding of a company’s competitive positioning
- Each branch of the hypothesis tree helps generating a holistic storyline.
- In order to confirm or falsify a hypothesis, one or more analysis are required.

2 SCP and non-financial evaluation of investment*

- The industry dynamics analysis evaluates the importance of and the changes to the structure and the competitors’ conduct on the performance of the investment opportunity
  - Strategy
  - organizational setup
  - processes and
  - other (non-) financial elements

3 Financial valuation of investment

- Historic review of all financials to provide context of current valuation
- Detailed forecast of financials based on our hypothesis tree and SCP analysis
- Consideration of different scenarios and catalysts (incl. their respective impact on our valuation)

4 Understand differences to consensus

- M17 will only earn a significant profit provided our analysis and valuation is different to consensus and these differences are identified ahead of the market appreciating those factors.

* SCP = Structure – Conduct – Performance framework.

Source: Team analysis

M17's approach in this market environment

Market environment

- A much higher level of volatility
- Many "rules of thumbs"[1] pre negative interest and QE become again reality
- Many stocks have reached or are about to reach irrational levels

Behavior of market participants

- A significant share of professional investors are (still) on the sidelines
- Retail investors (representing 10-20% of the market) are currently swing investors

Thoughts and reactions of investors

- The shift in strategic asset allocations is accelerating away from listed securities
- Investors pile a lot of capital into private equity and, to a lesser degree, private debt

- There exist many **dislocations** in the market (both public and private)
- Now is the best time to **prepare** for an investment program by increasing/ **raising cash**
- M17 is currently spending a lot of time in identifying investment opportunities and preparing for allocations (both in the public and private markets)
- Yet **M17 is still patiently waiting** as the market has not fully priced in many negative factors

[1] Dividend/bond yield ratios, risk premiums, normalized money flows, etc.

Source: Team analysis

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Ceconomy's background

- Ceconomy is a leading consumer electronics platform in Europe with Germany, Austria, Spain, Italy, the Netherlands and Turkey as core markets, with #1 and #2 market leadership position in 8 countries.
- Brands operated by Ceconomy:

MediaMarkt SATURN DEUTSCHE TECHNIKBERATUNG

- The group operates over 1,000 retail locations, generating EUR 21 billion in revenues and over EUR 250 million in normalized net profit (pre-optimization).
- Ceconomy obviously suffered due to the pandemic, yet the following caught my interest:
  - ✓ It generates 2.5 billion customer touchpoints per year
  - ✓ Its loyalty program has over 29 million club members
  - ✓ Its online sales skyrocketed during/thanks to COVID-19 and is currently at EUR 7 billion (growing even post the pandemic >25% yoy while the market only grows ca 0.5%)
  - ✓ It has ample of available but untapped debt facilities (RCF of 1.06 billion until 2026 undrawn)
  - ✓ Its governance structure just got massively simplified, resulting in faster decision-making
  - ✓ It has several equity investments which suffered in this correction, representing ca. 48% of its current market cap (over 10% in EV)
  - ✓ Ceconomy trades at 2.4x P/E (on normalized net profit, not correcting for equity investments)

Source: Team analysis

Ceconomy is a leading consumer electronics platform

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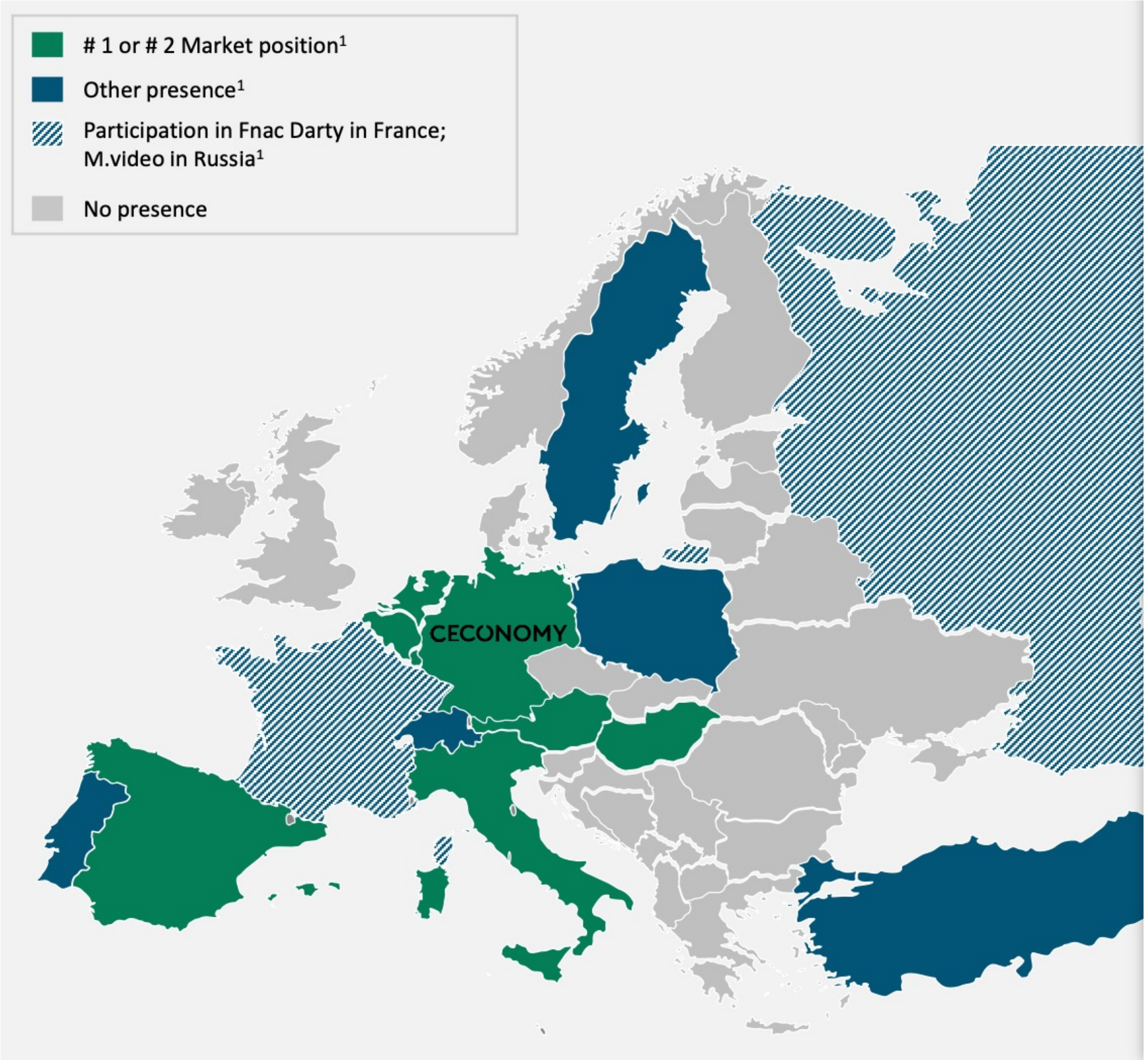

- Core markets in Germany, Austria, Spain, Italy, the Netherlands and Turkey
- Equity participation in companies operating in France, Russia and Greece
  - Fnac Darty (24%)
  - MVideo (15%)
  - PMG Retail Market Joint Venture (25%)
- Average market growth ca. 0.5% (below CPI due to constant discounting) of a EUR 162 billion market (in Ceconomy's home market)
- Ceconomy's revenues historically growing 0.6-0.9%, at EUR 21.4 billion in 2021 (ca. 13% market share and growing)

What is Ceconomy's moat?

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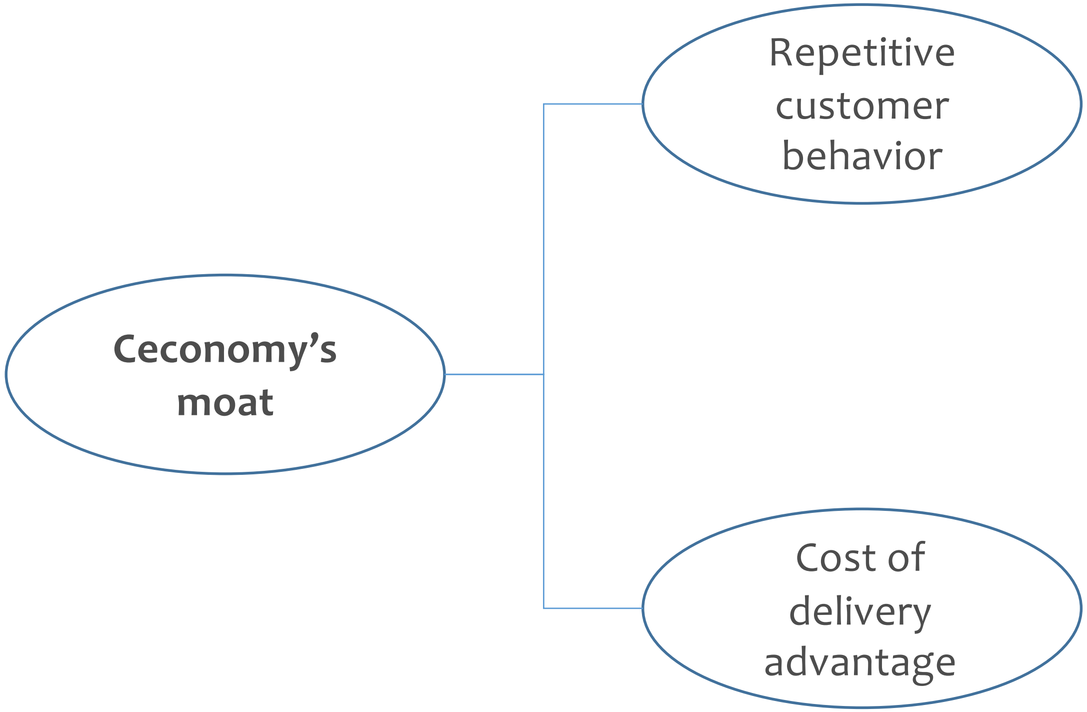

- Repetitive customer behavior in categories in which Ceconomy is strong at
  - 2.5 billion customer touchpoints p.a. (on average 9-10 per year for each inhabitant!)
  - 38% of all online sales picked up in store (cross-selling opportunity!)
- Ceconomy expands successfully into adjacent categories and services (eg. stationary, telecom)

- COVID-19 resulted into a huge shift to online/omni channels – during lock-down 33% of sales online from 14% pre-COVID (now still at 32%)
- The shift leads to a reduce need in retail space (Ceconomy already closed ca. 5% of all its shops post COVID-19 with plans to close another 3-4% in the next 2-3 years)
- The shift in customer behavior allows to modify/ reduce the outline/size of the retail outlets, providing an uplift in EBIT margin[1]

1 Elevating the EBIT corridor from 1.0 – 2.0% of sales by 25-50bps

Source: Team analysis

Ceconomy's debt capital structure

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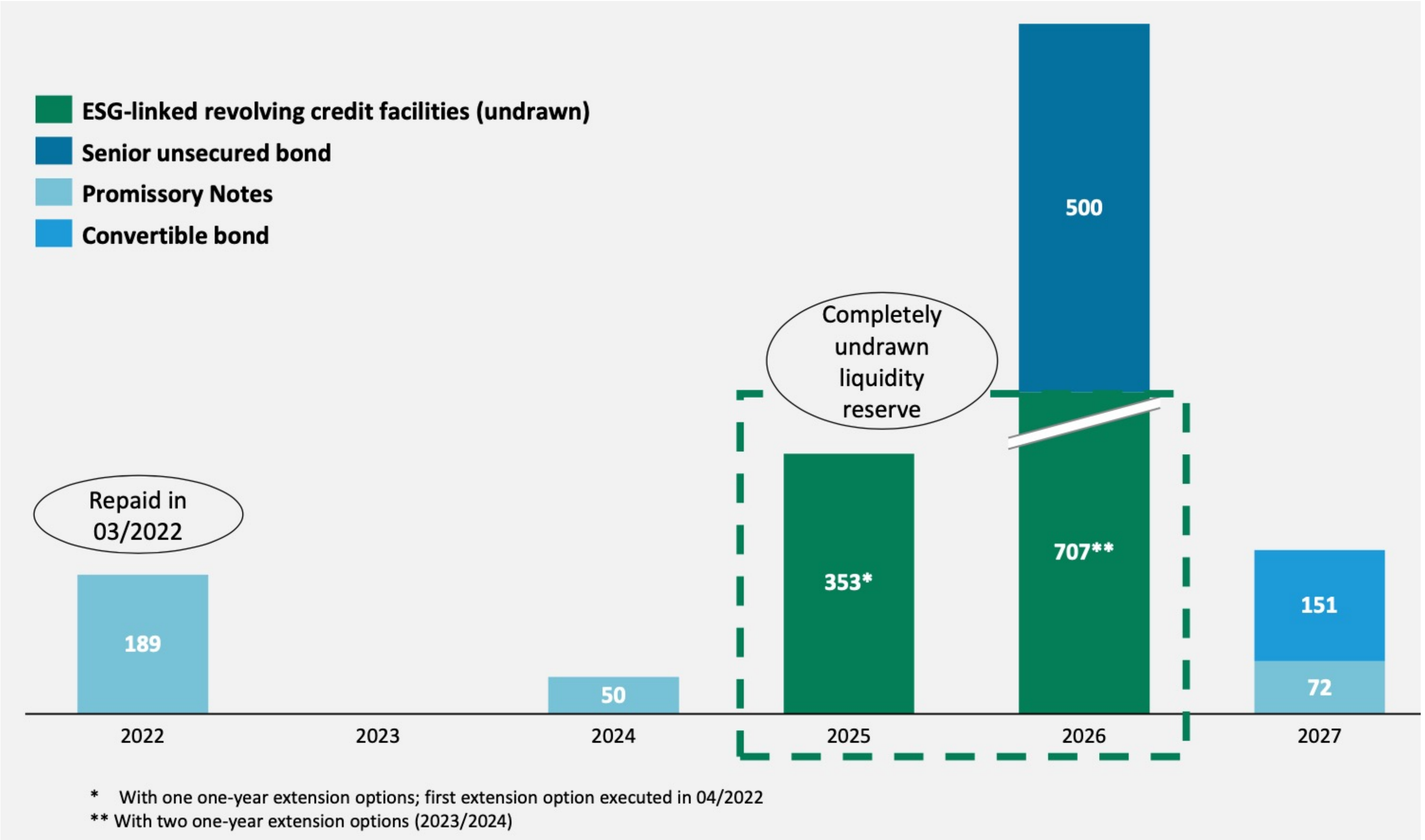

- It has ample of available but untapped debt facilities (revolving credit facility of EUR 1.06 billion until 2026 undrawn)
- Beyond the above RCF, Ceconomy has a further EUR 723 million in debt capacity
- In short, Ceconomy is well funded to take advantage in these volatile times and beyond

Ceconomy's minority investments

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Company	Description	Publicly listed	Shareholding	Current value (in EUR mn)	1-year target value[3] (in EUR mn)
FNAC Darty	• Retail chain for entertainment and leisure products, consumer electronics, and domestic appliances in France and Switzerland, Belgium and Luxembourg	yes	24%	178.8	331.0
M.Video	• Chain of household appliances and consumer electronics stores, and online stores in Russia • As of Dec 31, 2021, a network of 1,258 stores, including 599 M.Video stores and 659 Eldorado stores	yes	15%	89.1	326.0[4]
PMG Retail Market	• A joint venture with the Greek Olympia Group Ltd. with operations in Cyprus and Greece	No	25%	26.0[2]	26.0[2]
				293.9	683.0
			Per Ceconomy share	0.61 48.5% of today's share price	1.41 112.6% of today's share price

1 Elevating the EBIT corridor from 1.0 – 2.0% of sales by 25-50bps
2 At nominal equity investment value
3 Analyst consensus
4 Current dividend yield 33%

Source: Team analysis

Ceconomy's valuation

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DCF (EURm) (except per share data and beta)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal value
NOPAT	139.0	267.0	289.2	198.9	199.9	200.9	170.8	156.1	
Depreciation & Amortization	594.8	608.1	608.3	581.1	560.2	544.1	531.9	522.8	
Change in working capital	-585.7	-50.5	16.0	14.7	61.2	-48.6	13.8	11.7	
Chg. in long-term prov. & accruals	56.6	10.9	7.0	3.0	3.0	3.0	3.0	3.0	
Capex	-561.3	-472.8	-478.4	-480.8	-483.2	-485.6	-488.1	-490.5	
Cash flow	-356.7	362.7	442.1	316.8	341.0	213.7	231.5	203.0	2,269.7
Present value	-352.2	326.4	363.4	237.4	232.9	132.6	130.9	104.6	1,147.2
WACC	9.7%	9.7%	9.6%	9.6%	9.7%	9.7%	9.7%	9.7%	10.0%

DCF per share derived from	
Total present value	2,323.3
Mid-year adj. total present value	2,433.6
Net debt (net cash) at start of year	1,007.0
Financial assets	814.0
Provisions and off b/s debt	462.0
Equity value	1,778.6
No. of shares outstanding	485.2

DCF avg. growth and earnings assumptions	
Planning horizon avg. revenue growth (Year - 2029E)	0.6%
Terminal value growth (2029E - infinity)	1.0%
Terminal year WACC	10.0%

Terminal WACC derived from	
Cost of borrowing (before taxes)	5.0%
Long-term tax rate	30.0%
Equity beta	1.54
Unlevered beta (industry or company)	1.33
Target debt / equity	1.0
Relevered beta	2.26
Risk-free rate	3.0%
Equity risk premium	6.0%
Cost of equity	16.6%

Target price: EUR 3.67*

* 194% upside from the share price of EUR 1.25 (close 7 Oct 2022)

Source: Team analysis

Ceconomy's trading

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- Last price (EUR, close Oct 7): **1.25**
- Market cap (EUR mn): 608.47
- Average volume (mn): 1.14
- Beta (5 years monthly): 2.13
- Last dividend (EUR, Feb 10, 22) 0.17
- Dividend yield: 13.6%

Given current markets and momentum/trends, we suggest preparing and waiting for an entry point

Ceconomy's risks of investing (now)

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Cyclicality of revenues	• Cooling down of consumption still ongoing, especially in Ceconomy`s core markets (the company expects another 2-3 soft quarters) • Online sales only partially compensating store purchases
Inflation	• Ceconomy`s business model is one of a price leader, so the company has only limited/no pricing power (but procurement power due to scale) • Turkey sales up +64% yoy, yet expected inflation 2022 >80% (ca. 2% of group sales)
Delay/limited cost savings	• Ceconomy`s management expects to lower its cost base by over EUR 100 million by 2024 (impacting current EPS by 100%, normalized EPS by ca. 29%). Any delay or lowering of that target would result in downward revisions
Geopolitical risks	• Under more restrictive sanctions, Ceconomy`s minority investment in Russian M.Video might become (partially) impaired • Sporadic supply chain issues could delay/reduce orders/purchases
Reduce/eliminate temporarily dividends	• Similar to previously agreed COVID-19 financial support terms with the German KfW, any new financial aid package might require Ceconomy to reduce/stop the payment of dividends

Source: Team analysis

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