

ValuInsight – The Price of Value

- **This article complements our previous *Price of Growth* study published on October 15th, 2020.** Yet the correct continuum is not value-growth but “low-high expected growth”. The investment decision (“value” or “not value”) depends on an assessment of the discounted growth level, and how likely the considered company can do better over time.
- **The earnings multiple used to segregate “Value” from “Growth” only measures expected growth and a risk premium:** we call this the Zero Kelvin Fallacy. At zero/very low growth, a higher level of rent does increase the Franchise Value, and therefore the market capitalisation, but **not** the multiple. If the long-term real return of equity is 5%, the correct no-growth multiple is 20x (the inverse of 5%) for *any* company of equal risk premium, at *any* level of rent.
- **Growth in free cash flow demands a positive accumulation of economic assets** (usually a good proxy for volume growth), preferably combined with an expected increase in the level of the rent, which operationally leverages the company’s deployment of capital.
- **Failing this, solid businesses with a rent substantially above the cost of capital may trade well below the 35x FCF market median.** And sometimes for very long periods. We identify three types of “Value traps”.
- **Markets are about expectations and future growth, but seemingly not about “jam tomorrow”.** Despite a rent level matching Microsoft’s, Oracle trades on 20x net FCF because the replacement of legacy products by new ones has only produced sub-1% volume / revenue growth so far.
- **Markets are equally wary of stalling growth, even if temporary.** Novartis trades on 22x because, we think, it cannot convince the market of its ability to sustain 4 to 5% volume growth, following a string of adverse events on key drugs. Their Q4 2020 results won’t change this scepticism.
- **Some global leaders like Assa Abloy trade on a higher multiple (eg 28-29x) but still at a market discount,** despite an above average volume growth. We suspect that this is due to their inability to increase their rent. A lack of operational leveraging inhibits the full scale of FCF growth.

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Part One: Price of Value or Price of low-Growth?

Howard Marks, the co-founder of Oaktree Capital Management, recently published a long and detailed 16-page note titled *Something of Value*, where he attempts to debunk the myth of the Value / Growth segmentation. His piece is well worth a full read, but here are some quotes we would happily endorse, by way of introduction: “Carrying low valuation parameters is far from synonymous with underpriced”, “If something carries a low valuation, there’s probably a good reason”, “The two approaches – value and growth – (...) should never have been viewed as mutually exclusive to begin with”.

A misleading categorisation

From where we are, we have tirelessly pointed out that “value” and “growth” are a misleading, asymmetrical categorisation. This artificial divide was invented by the index providers largely for their benefit. Taken at face value, it implies that a growth business cannot be “(good) value”, and, conversely, that only businesses that grow less than average are (good) value.

This illogical symmetry would be inconsequential if it had not permeated the whole asset management industry, forcing managers to declare their allegiance, and putting stocks in boxes without context. It is perverse because decision-making in equity investment is a fragile construct, susceptible to what behaviourists call “anchoring”¹. We have spent decades talking to investors about stocks in all possible ways, franchise value, rent, competitive advantage etc... These investors were always polite and most of the time attentive, but many of these debates ended with a seemingly innocent “*What’s the P/E again?*”

¹ Anchoring means that the latest piece of news that you receive “sticks”, even if you know that it is false or misleading, if you disagree with it or if you pretend that “it does not matter”.

Inevitably, if the answer is 20 rather than 40, the buy case appears more solid. This article is about why this is at best misleading, at worst plainly wrong.

Leave the Book Value to Librarians...

“Value”, “Growth”, the semantic is only part of the problem. Equally problematic, a value universe is usually populated with stocks trading on lower-than-average P/E, P/Book or price-to-sales ratio. Accounting data was never designed to foster investment decisions. The “book value”, from which stem the price to book ratio and the price to earnings ratio², does not even begin to measure accurately the invested value of operating assets, which is *the* key aggregate in investment. It includes cash (which is “negative debt” and belongs to the enterprise value, not to operating assets), and goodwill (which should be ignored altogether), it does not incorporate the full working capital (by ignoring payables but including advanced payments), and it ignores the capitalised value of intangible spending (R&D or

² Price to earnings, or P/E is price to book over return on equity, itself defined a earnings over book value. The P/E ratio is attempting to measure the relationship between an asset multiple and the return on this asset, approximated by the book value.

advertising) unless acquired. It also carries the value of tangible assets at historical costs and depreciates assets (but not all of them) linearly. In fact, it is a miracle that the book value is representative of anything at all.

The median stock of our universe of stocks, which excludes financials and resource companies, trades on about 35 times normalised net Free Cash Flow. For this price, at the current level of risk premium, one would expect typically to see a sustainable (“normalised”) operating rent (operating Free Cash Flow to Economic Assets) of perhaps 12 to 13%, with a sustainable rate of accumulation of these assets of, say, 4% to 4.5% real, perhaps 1% above global GDP.

Above the median stock is a cohort of companies trading on 50 to 60 times normalised net FCF (typically Amazon, Nvidia or Tesla) which we studied in the *Price of Growth*. We investigate here the cohort of stocks trading in the 20s to determine if they are indeed all unconditional “value”.

At the beginning was the Equivalence

Generically, in a static “no growth” model, the inverse of the relevant earnings multiple is the discount rate, or the cost of capital. With normalised free cash flow (unlevered, i.e., including debt. Market Value = Enterprise Value):

$$\frac{\text{Market Value}}{\text{Free Cash Flow}_n} = \frac{1}{\text{Cost of Capital}}$$

Since Free Cash Flow is the net cash return that the business receives from its operating assets, the above can be re-written as:

$$\frac{\text{Market Value}}{\text{Operating Assets} \times \text{Cash Return}_n} = \frac{1}{\text{Cost of Capital}}$$

...further re-written as an equivalence:

$$\frac{\text{Market Value}}{\text{Operating Assets}} = \frac{\text{Cash Return}_n}{\text{Cost of Capital}}$$

This Equivalence assumes that the asset multiple (“book value” in accounting parlance) is equal to the relative return, or the cash return over the cost of capital. Again, in a static (“no growth”) model.

Exactly zero growth businesses are of course a theoretical construct, but the concept can be illustrated with a low growth business, with revenues growing at perhaps 2% or lower in volumes. LafargeHolcim, the global cement company, is such a company, and its economic characteristics are shown in the table below:

LAFARGEHOLCIM – ECONOMIC CHARACTERISTICS

(Amounts in Million CHF, unless % or x)

A. Market value (share price CHF 51)	44,500
B. Operating Assets	46,860
C. Economic Rent (“Cash Return”)	5.5%
D. Free Cash Flow (B x C)	2,575
E. Free Cash Flow multiple (A/D)	17.3x

SOURCE: VALUANALYSIS RESEARCH

On paper, its operating Free Cash Flow multiple (normalised) of 17.3x makes it an irresistible “value” investment proposal. Until we consider the following.

LafargeHolcim's asset multiple is 0.95x (A over B on the table above), signalling that the cash return ("the rent") is below the cost of capital (since the asset multiple, by construction, is equivalent to the ratio of these last two). By application of the Equivalence, therefore, this would suggest a company-specific cost of capital of $5.5\% / 0.95 = 5.8\%$.

Assuming that the current *market* cost of capital (in real terms) is near 5% today, this implies a company-specific 80bp risk premium. We have no precise way of quantifying this level of risk premium. But undeniably, businesses competing in a polluting industry (of which cement is) increasingly suffer from a risk premium penalty, a phenomenon which has been conspicuous in the past 12 to 18 months specifically. Even though LafargeHolcim ranks among the best in class (if not at the top of the class) within its industry, it is competing in a polluting industry, which various sources put at between 6 and 8% of global CO₂ emissions, and, as such, is almost certainly suffering from a substantial risk premium penalty, the magnitude of which could well be between 50 and 100 bp.

The above brings a conflicting message with respect to LafargeHolcim's valuation: LafargeHolcim's multiple of 17.3x suggests substantial value in a universe whose median multiple is around 35x, if you follow the Value/Growth divide. On the other hand, the Equivalence derives a cost of capital (and therefore an expected return) consistent with the market and its industry, suggesting no or limited value. Indeed, even with an extremely – and unlikely – favourable assumption of no risk premium penalty for cement, which would use a *market* cost of capital, say 5%, to value LafargeHolcim, its relative return (rent over cost of capital) would only be 1.1x (5.5% over 5%). This is

15% over the observed asset multiple of 0.95x. Thus, a multiple of 17.3x, half the multiple of the market, would, at its most favourable, imply a 15% undervaluation. This is the Zero Kelvin Fallacy.

The Zero Kelvin Fallacy

One of the major defaults of the Growth / Value divide is the reference to the median valuation (the market universe is usually cut in two to create these two categories), and an assumption of some sort of, well... *mean*-reversion. It is somehow assumed that a low multiple will "normalise" towards a market rating over time, which is what makes it "value". This choice of words is unfortunate because it flies in the face of a basic rule of asset pricing, which is that at zero expected growth, the price of an asset is equal to a constant stream of earnings discounted by a discount rate (as we explain in the previous paragraph with the Equivalence). Again, at zero expected growth, the earnings yield (earnings divided by price) *is* the discount rate. Or, on its head, the earnings multiple is constant and equal to the inverse of the discount rate.

Given the long-term real return of equities - between 5% and 6% - a zero-or low growth business (which is not in danger of becoming distressed) will converge towards 17 to 20 times (the inverse of 5 to 6%) the relevant earnings. Hoping for anything else is falling for the Zero Kelvin Fallacy.

At the theoretical temperature of zero Kelvin (minus 273° Celsius), aka "the absolute zero", electronic particles stop moving and "nothing happens" ... Likewise, if none of the "particles" of a business model are in motion, its multiple will converge and remain at the inverse of its relevant cost of capital, most of the

time 5 to 6%. Nothing else will move the needle, apart from a possible change in the risk premium. The zero Kelvin fallacy is that, **at an adequate level of risk premium, the multiple is not an indication of value, but an indication of movement (= growth)**. The more the business particles move, the higher the multiple. The only way a zero-growth low multiple could be “value” is if the implied discount rate were too high (say above 6%, or below 17x net free cash flow).

Such that the continuum throughout the market universe is not “value” and “growth”, but, rather, “*expected* lower growth (than the median)” and “*expected* higher growth (than the median)”. We admit that it is less catchy...

So, *growth* is moving the needle of the multiple. Growth of Free Cash Flow, which can be impacted by revenues, margins or capital intensity. The Sources of Value analysis, derived from the Intrinsic Value framework, is a good prism for this analysis.

The Equivalence and the Three Sources of Value

In the Intrinsic Value framework, the market value of a company is made of its Replacement Value and its Franchise Value. The latter is the discounted value of the sustainable level of economic profits, itself defined as the “economic spread” (sustainable Rent minus Cost of capital) times Assets. This model has been designed “at equilibrium” and ignores growth.

With the LafargeHolcim example, let’s imagine that the cost cutting measures implemented since the merger, together with the recent – unexpected – diversification of the company into roofs were to increase eventually – **as a one off** – its rent to 8%, without fundamentally changing its trend growth (this is purely

for illustration purposes). Assets are 1bn more, financed by debt (+1bn for the Enterprise Value).

Prior to this deal, the company’s market value was 44.5bn, and its operating assets 46.86bn (see previous table). Therefore, there is a negative Franchise Value of $44.5 - 46.86 = -2.36$ bn priced-in. This number is the discounted value of the economic loss, or the rent minus the cost of capital times the assets. In figures and in millions:

$$(0.055 - 0.058) * 46\ 860 = -141$$

$$\frac{-141}{0.058} = -2\ 360$$

After the deal, the operating assets are 47.86bn (+1bn) and there is a positive Franchise Value, calculated as the spread between the new rent (8%) and cost of capital (5.8%). This is equivalent to an economic **profit** (as the rent is above the cost of capital) of

$$(0.08 - 0.058) * 47\ 860 = 1\ 050$$

The new franchise value is the discounted value of 1.05bn at 5.8%, or 18.1bn. The new market value is therefore $47.86 + 18.1 \approx 66$ bn. With the Equivalence: the relative return is now 8% / 5.8%, or ca. 1.38x, the ratio of 66bn (the new market value) divided by operating assets (47.86).

“NEW” LAFARGEHOLCIM – ECONOMIC CHARACTERISTICS

(Amounts in Million CHF, unless % or x)

A. Market value (share price CHF 51)	66,000
B. Operating Assets	46,860 + 1,000
C. Economic Rent (“Cash Return”)	8.0%
D. Free Cash Flow (B x C)	3,830

SOURCE: VALUANALYSIS RESEARCH

Given that the company's Enterprise Value pre-deal broke down 31bn in equity and 13.5bn in debt, the new market capitalisation is 51.5bn: 66bn (Enterprise Value from the Franchise Value calculation) minus 14.5bn (new debt). In other words, investors have made a cool 66% return in this imaginary example.

Sixty-six per cent? Surely this is the demonstration that value works? Sadly, not so simple... This phenomenal return has nothing to do with the original low multiple. It has everything to do with an unpredictable, discreet event which increased the rent and created a positive Franchise Value of 18.1bn from a negative Franchise value of 2.36bn, a 20.5bn swing, or... 66% of the previous market capitalisation. **Post deal, the multiple is exactly the same: 17.3x³.**

A Discount Rate and a Movement

This example illustrates that a multiple reflects a discount rate and a **movement**. Movement means an expectation of sustainable growth in assets, preferably combined with an increase in the positive spread between rent and cost of capital ("the economic spread"). Note that the latter alone is not sufficient. As in the LafargeHolcim imaginary example, an increase in the rent increases the Franchise value and therefore the market capitalisation, but **not** the multiple.

Furthermore, an increase in the economic spread combined with a negative growth rate should be detrimental to the multiple. This is indicative of a business model able to increase its competitive advantage but unable to deploy enough capital to leverage it. The symmetrical - a negative economic spread (the rent is below the cost of capital) associated with growth in assets - should most definitely be taken with scepticism by investors, unless the company can convincingly prove that the marginal return on investment is materially superior to the legacy business. We will see later that this is a tall order for management.

The Intrinsic Value framework, as we have seen, identifies two sources of value (Replacement, or capital invested, and Franchise Value) because it is a model "at equilibrium". Practically, there are **three**: Replacement, Franchise and Growth Value. Growth Value prices the probability of growth in Free Cash Flow, produced by a positive rate of accumulation of assets (an approximation of volume growth) preferably combined with an accretion in the level of the rent. In this latter case, the company "leverages" its rate of accumulation of assets by utilising operational leverage. The Growth Value is what lifts the multiple above "zero Kelvin", or above 17 to 20 times net Free Cash Flow (5% to 6% real discount rate or expected return).

³ 66bn divided by 3.83bn of Free Cash Flow

Part Two: The Price of *some* Growth

Some organic growth is likely to materialise even among the more static companies, not least because the ambient economy grows on average at around 3 to 3.5% globally. Furthermore, unlike LafargeHolcim, most companies in our universe trade above their cost of capital, due to a lighter capital intensity than a cement producer. Yet some of these businesses trade on multiples that are well below the median and would qualify as value in the nomenclature of the index providers. This section attempts to investigate what creates this.

Jam Tomorrow

LafargeHolcim is run by an excellent manager but the structural growth rate of cement cannot be shifted upwards. “Jam tomorrow” is the case of a legacy business with a negative growth outlook, combined with a new business or product with a strong positive outlook. The net effect currently produces no growth but an inflection point – where New Business overtakes Legacy Business – is conceivable. We find many such examples in the technology sector: Cisco, IBM, Oracle, or to some extent Intel fit this description.

The “jam tomorrow” scenario usually does not move the needle of the multiple, and such companies usually trade well below the market median. In fact, the price of jam is 20x net Free Cash Flow, and Oracle is a good example.

Oracle enjoys a phenomenal level of rent. We calculate that its net return on economic capital averages ca. 24%. This is comparable to Microsoft, which comes out even slightly lower, at 23.4%. Yet the latter trades on 40x net Free Cash Flow, and the former on exactly half this multiple. The difference is that Oracle is about jam tomorrow, whilst Microsoft is about honey today.

Asset growth

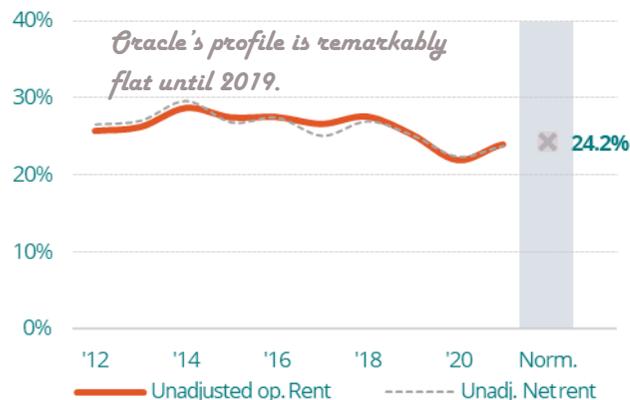
The average historical (last seven years) revenue growth (unadjusted for acquisitions or disposals) is 0.7%p.a. for Oracle, and 9.5% for Microsoft. Equally telling is the difference between their operating and net rents. Operating means that only maintenance capital consumption is deducted from Cash From Operations, whilst net means that all capital spending (including growth capex) is. Oracle has exactly the same operating and net rents: 24.2%. Microsoft, meanwhile, returns 23.4% net (already mentioned) but 28.3% operating. Thus, Microsoft invests nearly 5% of its net assets in growth per year (28.3% minus 23.4%), Oracle, zero. This means that Microsoft grows its Replacement Value by 5% per annum (on top of its underlying trend growth) and its Franchise Value grows by this extra amount times its economic spread (which is very large). Compounded over a few years, the difference is phenomenal.

Fade

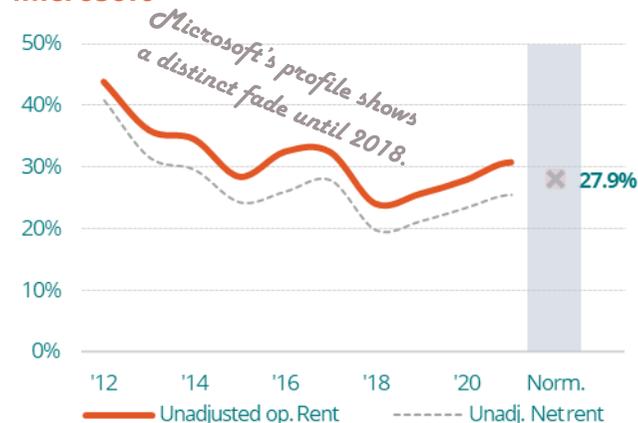
The following two charts compare the operating rent of both companies.

HISTORICAL OPERATING AND NET RENTS

Oracle



Microsoft



SOURCE: VALUANALYSIS RESEARCH

Advantage Oracle, this time: the historical rent profile is very stable at a high watermark. The company is able to “beat the fade”, an indication of a well-managed competitive advantage. Microsoft cannot beat the fade so easily, partly because it started from too high a level.

But the recent evolution suggests a potential reversal of the historical trend: Microsoft’s fade is levelling off, it seems, whilst that of Oracle is slipping. A couple of observations don’t make a trend; but this is the kind of shift that an investor will watch like a hawk. Beating the fade is an exceptional event once you have started to accept a lower marginal return on your capital (= you have accepted to let your rent normalise). Investors in aggregate will likely price a continuation of the fade, and if they observe that this is too conservative, they are likely to re-price the shares

aggressively. The reverse is of course true, too. Investors will be aware of the recent drop in Oracle’s rent profile, and this is bad news for Oracle’s multiple.

Investors don’t need more than the combination of a no-growth profile in volumes and the suspicion that the rent might not be sustainable in the mid, let alone high-20s, to put a firm lid on Oracle’s multiple. 20x, which as we know means a market equity risk premium and no growth in FCF, is entirely consistent with this economic framework. This represents value not in absolute level of the multiple, but relative to an expectation of growth in FCF (which is itself entirely plausible), triggered by a reversal of the slipping rent and the emergence of some volume growth at the group level, if and when New Products become dominant.

Growth Evaporation

Novartis, the Swiss pharmaceutical company, offers another illustration of a high rent, high-quality business, run by an inspiring CEO and yet stuck in the mud of the low 20s FCF multiple. A cursory top-down analysis might explain this by the context of the market; 2019-2020 was all about high growth tech, preferably compatible with stay-at-home during Q2-Q3 2020, and, following the advent of the vaccine against COVID 19, investors preferred “short duration” stocks, or stocks with little or no Growth Value (like LafargeHolcim), in the belief that their Franchise Value will recover, and that they will not be affected by rising interest rates (by definition, the existence of some Growth Value pushes more expected cash flow into the future, making their net present value more sensitive to a change of the discount rate).

Novartis has not really underperformed operationally. A well-managed, diversified global pharmaceutical business returns between 10 and 13% on operating assets, a more than honourable achievement as a sector. Roche, Merck, Eli Lilly or Johnson & Johnson are all at this level (in the last case, it is hard to know the rent of the pure pharma division). Even the Japanese companies, usually outliers in their global sector, are in this ballpark. Sanofi is a step behind at 9%, and Astra, which is famously re-building its pipeline, is in single digit, too.

It would seem that Novartis’ rather energetic (and overall positive) corporate actions (culminating with the spinoff of Alcon) have reached their objectives: Novartis’ rent is at the top end of the global range. It would need, perhaps, the further deconsolidation of the Sandoz division (but we are unsure that

this would even be rent enhancing) to take it a step further. For the market, old news is no news. The *new* news concerns growth rather than the level of the rent and is less flattering. A stream of unfortunate events has hit the market and the stock in the past 12 months: delay for Zolgensma (Spinal Muscular Atrophy), no clear wins for Mayzent (relapsing MS), rare but very significant side effects for Beovu (macular degeneration), and a delayed FDA site visit of a European production site for Inclisiran (novel anti-cholesterol drug)...

The consequence is that investors in aggregate seem to be in doubt about the sustainable growth rate of the company. We estimate that the normal rate of accumulation of assets (which broadly approximates volume growth) ought to be between 4 and 5% for Novartis. Based on a share price of CHF 86, assuming a sustainable competitive advantage for the years ahead (= the rent is stable), the implied rate of asset accumulation is 2.6% per annum for the next 4 years, and 2.8% for the next decade. Importantly, because the rent is assumed to be stable, and there is therefore no leverage, the implied growth rate of Free Cash Flow is comparable, around 3% per annum. The recently released quarterly figures (Q4 2020) confirmed that growth has stalled. The shares were down more than 2% on the announcement despite their “value”. **Novartis shares are only “value” on 22x net free cash flow if you take the view that their expected (discounted) growth rate is below their likely sustainable growth rate.**

Lack of Operational Leverage

This category of “value” stocks is perhaps the most difficult to pin down. These stocks trade below the median valuation whilst the rate of asset accumulation is higher than the median, and more often than not, so is the rent level. This makes these stocks puzzlingly cheap relative to the quality of their competitive advantage. It is not unusual to find here world leaders or companies enjoying substantial market shares; we are thinking of Motorola, for instance, or Assa Abloy.

Assa Abloy, the Swedish company leader - by a margin - in security devices and access management (locks, safes etc...) can easily outgrow global GDP by at least 150bp. In addition, the company is an acquiror and a consolidator, which pushes its overall asset growth into high single digit. The global access market is still very fragmented, and the company has a stated ambition to acquire 5% of growth per annum, a substantial number. We don't think that this should worry investors, as we don't see a fundamental difference between CAPEX and acquisitions (at the right price, of course).

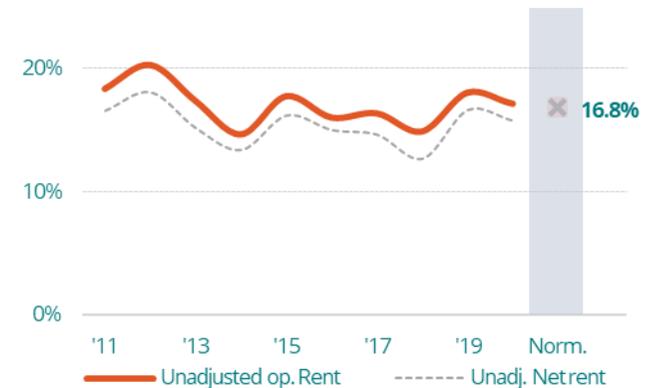
On the rent front, the normalised operating rent comes out at 16.8%, with a net of 15.3%. The company invests 150 basis points of its asset base per year into growth (16.8% minus 15.3%).

Nearly 17% of operating rent for a capital goods business is more than a creditable achievement: it is close to the best in class. It is not easy to find a manufacturing business returning this kind of rent at this kind of growth. Ignoring the sector and solely comparing the economic characteristics, and in particular the rent/growth duo, something like Analog Devices (17.1% operating rent and 5/6% trend growth) will come close to Assa.

We accept that such comparisons may look odd, as they cut across sectors, but rent and growth are two major drivers of valuation, irrespective of the sector. And, on that basis, Assa is at a substantial discount to Analog Devices (28x vs 33x).

We believe that the reason might be in the following chart, which plots Assa's operating and net rents over time:

ASSA ABLOY HISTORICAL OPERATING & NET RENTS



SOURCE: VALUANALYSIS RESEARCH

The picture of a flat rent profile is unhelpful to the multiple. As we pointed out earlier, an increase in the rent, the result of an operational leverage of the economic assets, is an essential part of the growth in free Cash Flow. The rate of accumulation of assets alone is not sufficient to lift growth into double digit, which can propel the multiple above the market median.

This is hypothetical, as many other factors could explain the discount: the Swedish krona is not a preferred currency for international investors, the company is relatively small, or

management could be stretched to cope with a global footprint (the company has had issues in China for some time and took substantial write-downs in 2018).

But Free Cash Flow is rent times assets. If the company cannot demonstrably be expected to move up the level of its rent, then its expected growth in Free Cash Flow will be equal to its rate of asset growth, which is constrained by financial means (capital consumption is not costless) and by the structural growth of the market (remember LafargeHolcim).

By Way of Conclusion...The Ideal Value Stock

The ideal Value stock would combine all of the following features:

- An accelerating rate of asset accumulation (aka “volume growth”)
- An increase in the operational leverage, due either to revenue leverage or margin leverage, leading to an increase in the rent. That last result could also, conceivably, be achieved by a lower capital intensity, everything else being equal
- A decrease in the risk premium

Needless to say, such stocks are hard to find! Little known Constellation Brands is a good example of what this might look like. Constellation brands, a beer and wine producer, trades on about 28x net Free Cash Flow, at the upper end of our “Value band”. It is the owner of renowned, if unfortunately named, Corona beer.

Current management has embarked into a deep-rooted revamp of the company, including:

- The disposal of non-essential assets (especially vineyards)
- The positioning of the company around its premium brands (Corona)
- The promotion of hard seltzer, or “spiked seltzer”, a type of low-alcohol (ca. 5%) carbonated drink very popular in the US, reminiscent of drinks like Red Bull.
- The restructuring of their Canadian associate Canopy, a cannabis producer owned at 38%

The story mixes up features of a classic restructuring, a premiumisation of existing brands and a positioning on high-growth areas (hard seltzer) in a manner that is not dissimilar to the early stages of Monster Beverage. Management will have to demonstrate that they can execute this ambitious plan, but on paper, these actions ought to deliver all of what is required to move up to a median, or above median, multiple. Disposals of low yielding assets increase the rent, but in a one-off manner; this may as well reduce the risk premium. Focusing on existing premium brands would allow the market to anticipate an accelerating rate of asset accumulation (“volume growth”) and possibly a sustainable increase in the rent via margin leverage. A foray into a new market, which they believe they can lead, if not dominate, would achieve the same result via revenue leverage. Finally, a better managed large associate may reduce the volatility of associate income (which has been unhelpfully large historically) and reduce the risk premium.

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Recommendation	"Buy", "Hold" and "Sell" recommendations		Investment services provided to these issuers in previous 12 months	
	Number	% of total	Number	% of total
Buy	32	56%	0	0
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Sell	11	19%	0	0

The above table covers the period 29th January 2020 to 11th February 2021. This disclosure is reviewed and updated on a quarterly basis. Last updated 11th February 2021.

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