

Month: -1.2 % gross / -1.3 % net

Total AUM: US\$52m

**Lauro is a European Long/Short Equity Fund managing a long-term concentrated portfolio of 20-30 holdings. We believe deep fundamental research focused on ROIC, cashflow generation & attractive asymmetry are key to long-term value creation. We work to maximise the idiosyncratic nature of our returns through our active engagement with management teams.**

## MONTHLY/YEARLY HIGHLIGHTS

**We finished the month of May -1.3% net vs. +1.9% for the MSCI Europe Local index.** The market was volatile over the month reflecting both disappointing jobs numbers out of the US (NFP) at the same time as higher than expected inflationary concerns. On the positive side Europe has exhibited strong vaccination rates and looks set to re-open in 2H21, with the EU recovery fund a key catalyst into 2H21.

**Key contributors/detractors** – Clearly May was a disappointing month with most of the value destruction emanating from Stroer (-90bps) – see below. On the positive side, our value names continued to do well w/ Banks as a group contributing 106 bps whilst Anglo American and BAE Systems adding 43bps/35bps respectively. We closed out of our Kitchen OEM Equipment short position at a loss (-50bps) as it exhibited strong re-opening momentum and expanded its production capacity into the US.

**On the trading front** – we added to Ströer, Nexi and initiated Whitbread on weakness as we see data suggesting a strong domestic Summer Season in Europe with mobility and consumer spend returning. Whitbread took the opportunity during COVID to maintain staff capacity, raised capital from shareholders, refitted/renovated exiting premisses and it is accelerating its German pipeline via M&A.

Despite teasing with the prospect of further discussion on our core portfolio holding Nexi, the persistent underperformance of Ströer is one which we think deserves further commentary as follows:

**Ströer – A management with strong control over all the German Out-of-Home (OOH) levers.** Our underperformance YTD has been driven by 2 stocks – Ströer & Vestas. Ströer’s -17% performance YTD, underperforming the market by close to 30% and the Global peer group by >40%.



Ströer’s franchise comprises billboards, street furniture, public video with limited exposure to airports in the domestic German market. The key driver of the underperformance in our opinion has been the hard lock down in Germany with continued noise around over-exaggerated (in our view) corporate governance concerns. Of the OOH players and general advertising operators globally, Ströer was the only player that retained its dividend in 2020 despite a once in a 100-year pandemic – an indication of the cash flow power of the franchise. With the significant outperformance of Ströer’s digital assets Asam and Statista, the core German OOH is currently trading on our estimates at around 12x 2022 PE (versus the global comparators at over 30x).

### ***So why increase the position now?***

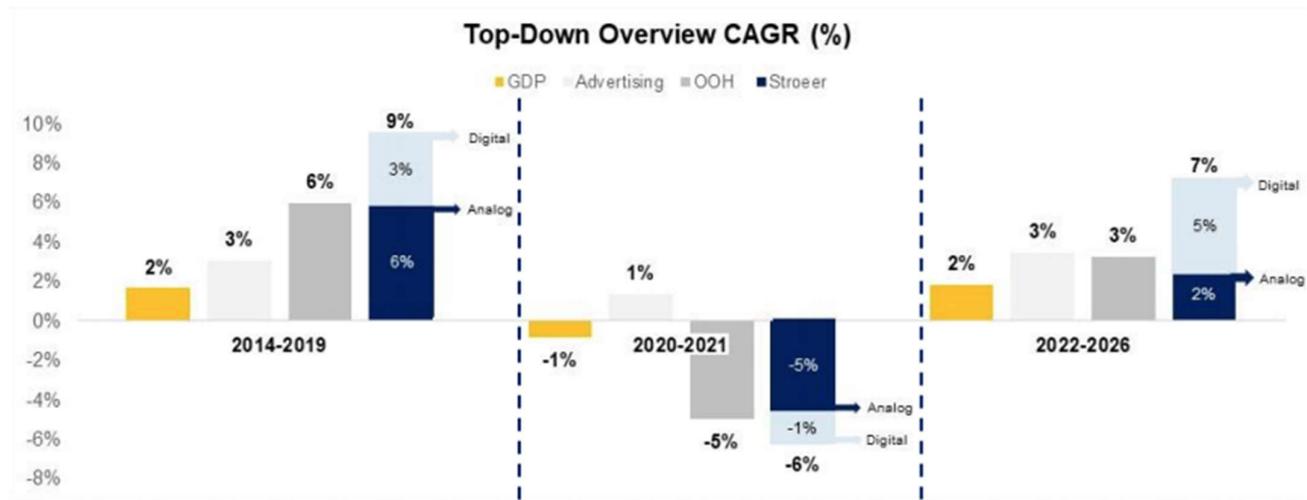
Every year there are 1-2 opportunities to build conviction and size in long-term winners which for whatever reason remains under-appreciated by the market. During the pandemic in 2020, we took the opportunity to build large positions in Vestas and Anglo American. We think Ströer is another such opportunity. Our core thesis is demonstrated in the following charts:



**Mind the Gap** – the market is building in a one-step change (Yellow line minus Red line) in the revenue trajectory of the German OOH franchise despite the German economic output gap estimated to close by Q1 2022. Based on our analysis, we believe there are 2 logical scenarios, either the market is wrong and the efficiency of the 1,300 strong sales force remains inline with historic levels, significantly underestimating the potential “V” shape revenue recovery. Or the market is right in terms of the Sales revenue trajectory and Ströer is over investing in its sales force. Given where the share price is today, we would argue that the market underestimates the ability of management to react.

**Either way, we see room for upside surprise in our base case of higher Revenue Growth and ultimately profitability with management able to right size the sales force as the market environment becomes clearer. Our view remains there is significant upside to the long-term profitability of the group versus the current market estimates.**

Our numbers, despite being higher than consensus estimates, remain conservative versus the potential of the business as highlighted by comparing the operational leverage to Revenue growth for the OOH pre-pandemic into the next 5 years, outlined as follows:



Prior to the pandemic, Ströer’s 5-year organic growth rate was 3x faster than overall German advertising growth. The significant leverage from GDP growth to Ströer’s organic growth reflects its unparalleled network and infrastructure: 60% market share, strong digital roll out and unrivalled 1,300 strong sales force accessing the untapped and highly profitable SME market in Germany. With two-thirds of the growth likely to come from digital (higher margin business), we expect a stronger positive mix effect than historic growth rates. **Our 7% 5-year Rev CAGR is some 2%+ higher than the street and we think there is risk to the upside on our numbers.** With a fixed cost base, incremental revenue growth is highly accretive to EBITDA & cash flows.

Playing our role as active managers, we have recently presented our view in a formal presentation to the Co-CEO’s Udo Müller and Christian Schmalz. Our recommendations as follows:

- **Family business in public hands?** Accelerate the institutionalisation of the business whilst dialling down the noise around governance. Accelerate ESG investment and improve ranking versus sector whilst increasing transparency at the supervisory board level.
- **OOH has been significantly de-rated** – focus on execution and communication around the power of OOH opportunity within Germany. The potential to take significant market share from print, directories and linear TV (still a high 40% of the market) – see above charts.
- **In the event the discount doesn’t close over time** – MBO a clear option. The dividend of over €110m pays for >5x leverage suggesting 50% IRRs on a 3-year view and 30% over 5 year view.

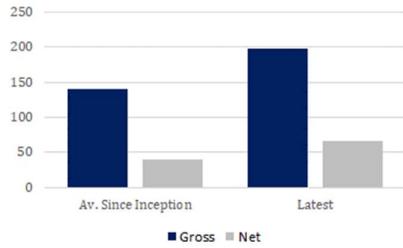
All in, as the German economy accelerates on the back of re-opening in June and advertisers increase expenditure aggressively to capture pent up consumer demand, we see Ströer being well-positioned. The dialling down of lingering noise around corporate governance and an improving ESG ranking, suggests we are on a cusp of a re-rating of the stock.

KEY FIGURES END OF MONTH

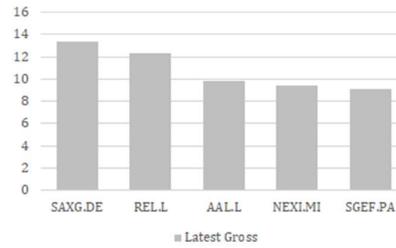
Net Performance Lauro Opportunities Europe Fund

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LAURO	MSCI EU
2019				3.3%	-2.8%	2.3%	2.4%	-0.1%	1.0%	-3.1%	-0.4%	0.2%	2.6%	8.4%
2020	-2.6%	-2.5%	-3.4%	-0.2%	2.2%	-3.8%	0.1%	4.2%	0.7%	-6.6%	15.7%	4.4%	6.7%	-4.3%
2021	-5.3%	1.7%	1.4%	1.1%	-1.3%								-2.6%	11.1%

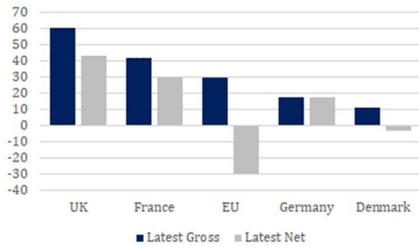
Gross vs. Net (%)



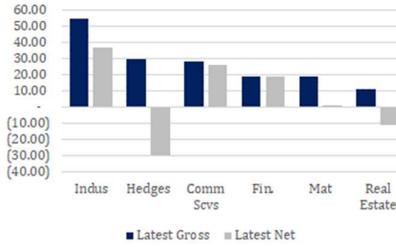
Top 5 Holdings (%)



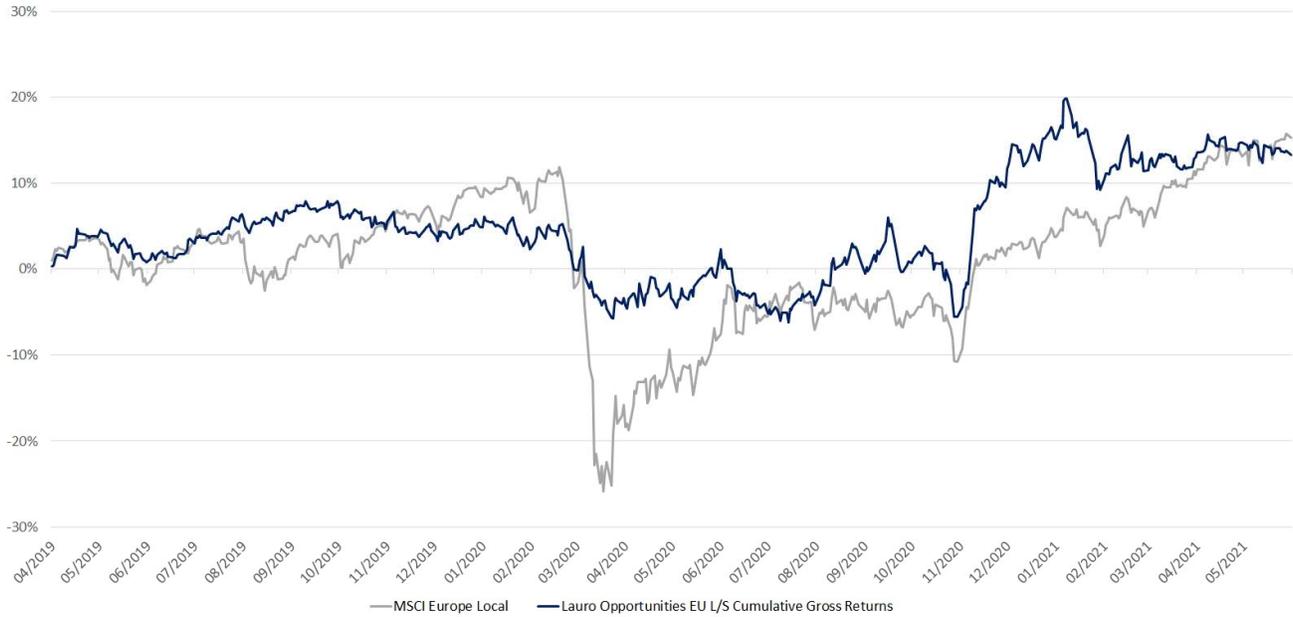
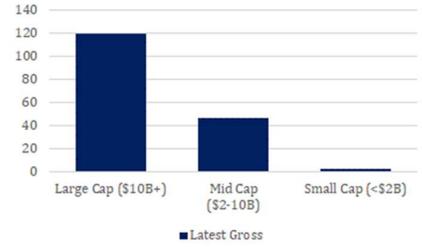
Geographical Exposure (%)



Industry Exposure (%)



Market Cap Exposure (%)



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