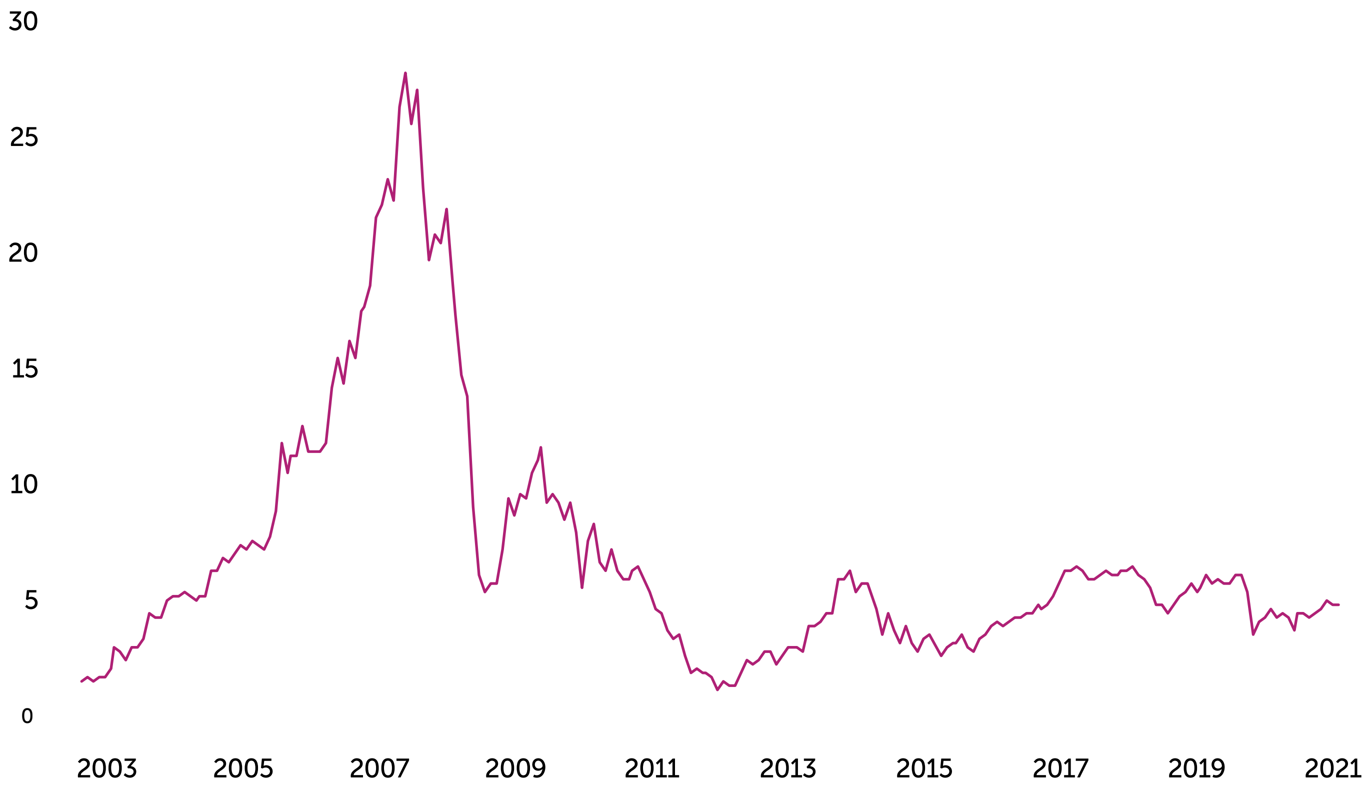
QUARTERLY **INSIGHTS**

HOLD ASSET MANAGEMENT — THE CENTRAL-EUROPEAN VALUE-BASED EQUITY SPECIALIST

GREEK REVIVAL
A CONTRARIAN BET ON CYCLICAL RECOVERY

The second quarter saw a massive ramp up in the speed of vaccination programs in the developed world. This phenomenon coupled with the beneficial effects of seasonality brought about a significant improvement in the pandemic situation. The dust started to settle and the bigger part of the world started to operate just like old times. The major share of the fiscal stimuli however are yet to be outlaid on this side of the Atlantic in coming years. This lag could give the proverbial kick to the European economy. All of this is well expected and asset prices in Western Europe more or less tend to reflect this scenario. However, dedicated investors with keen eyes still able to find opportunities with compelling returns, particularly in the wider CEE and Southern European region.

1 FOURLIS HOLDINGS



SOURCE: BLOOMBERG, HOLD ASSET MANAGEMENT

MACRO CONDITIONS

As a value investor one has to take contrarian bets quite often. This requires careful analysis and proper understanding of the target due to the higher level of uncertainty. Thanks to our local expertise and also the largest team of analysts in the region we have been able to gain confidence and go against the consensus regarding the magnitude of Greek recovery via building a position in Fourlis Holdings.

The backbone of our investment thesis is the Greek macro environment. The financial meltdown of 2008 and the ensuing crisis was followed by such a severe depression in the Greek economy that its consequences can be felt to this very day.

2 GREEK ANNUAL GDP GROWTH (%)

SOURCE: EUROSTAT, HOLD ASSET MANAGEMENT

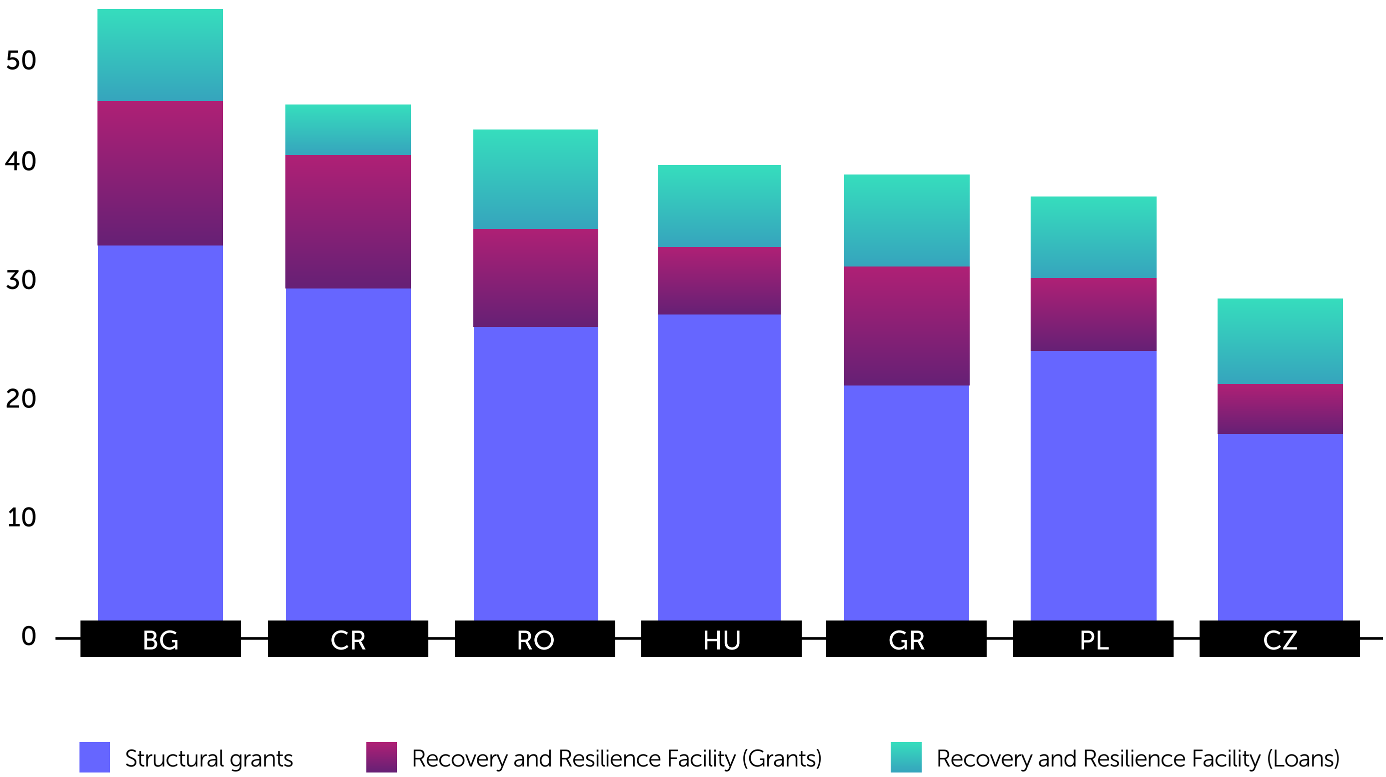
Severe austerity measures created huge unemployment and real wages fell by 25%. The consequence of this massive internal devaluation is that GDP and consumption both are still well below pre-crisis (i.e. nearly 15 years ago) levels. Yet life still goes on and assets wear out. In an economy ruled by negative consumer sentiment maintenance tends to be drastically reduced, which creates massive pent-up demand for such spending when good times return. It becomes obvious just by looking at the housing data. Decrease in building activity resulted in an elevated average age of residential structures. Most of the Greek homes were built before the 1980s. Secondary market transactions – which tend to go hand-in-hand with timely renovations – slowed down also.

It is paramount to be aware of the fact that the banking system has been recapitalized multiple times in the last thirteen years and balance sheets are now in much better shape. These conditions likely imply that the financial sector doesn't face any constraints from the equity side and it is ready to accommodate the emergence of borrowing demand at the proper time.

Another supportive factor comes from the increase of transfers from the EU in the coming years. Under the current 7-year EU budget Greece will receive EUR 39 billion of funding equaling 24% of the country's annual GDP, which is a significantly higher allocation compared to the one of the previous cycle. On top of this the Hellenic country will be eligible for EUR 32 billion from the Recovery and Resilience Facility in the form of grants and loans. The latter program is rather short term focused, resulting in a much quicker impact on the economy. Putting these two together and the combined external funding coming to the country can exceed 40% of its annual GDP dwarfing the numbers of the previous cycle of 2014-2020 during which Greece received 14% of its annual GDP in various forms of transfers.

3 EU TRANSFERS IN PERCENT OF GDP

2021-2027



SOURCE: EU COMMISSION, HOLD ASSET MANAGEMENT

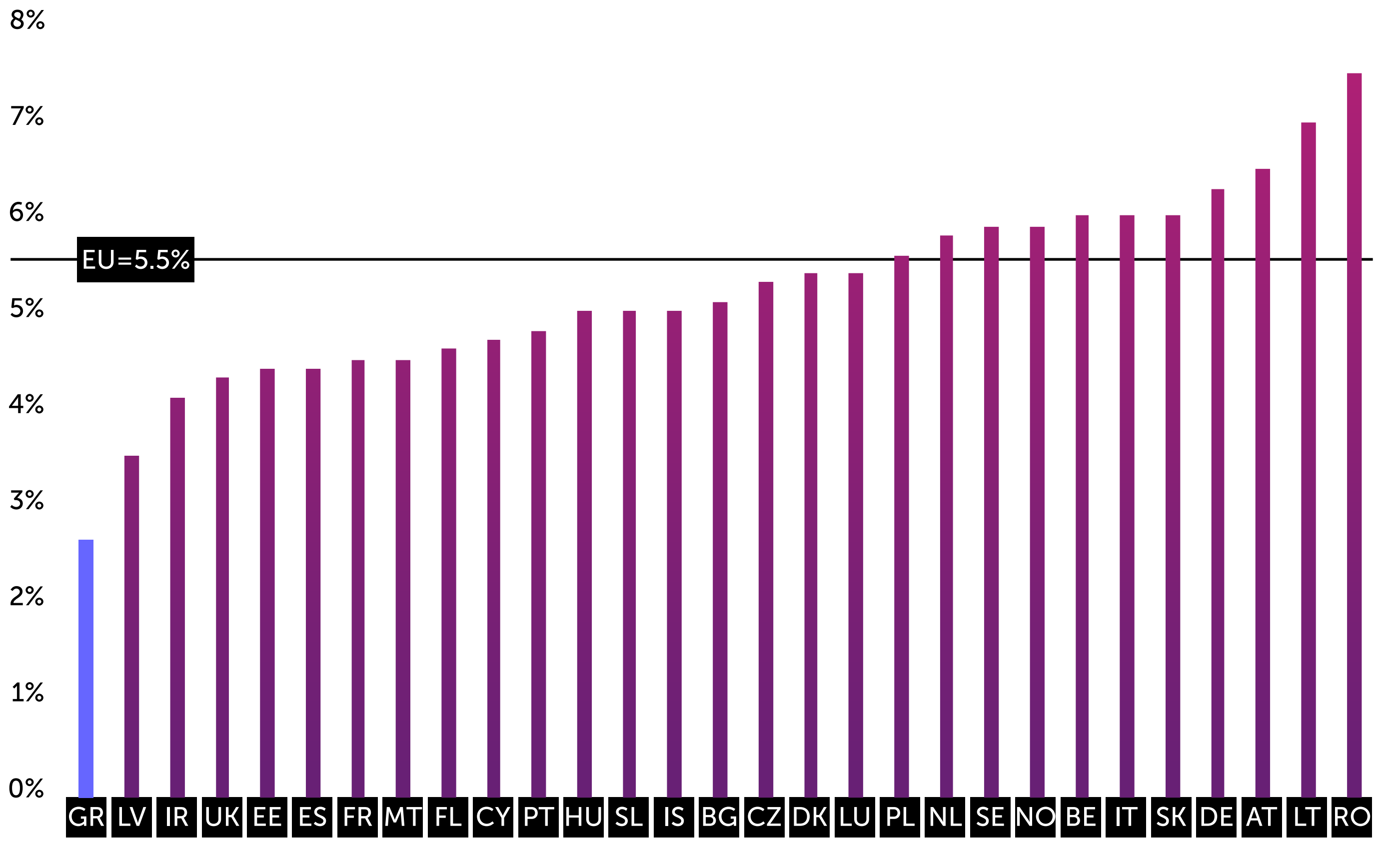
The general elections of 2019 saw the victory of a center-right liberal conservative party. The new tide in the ocean of politics is expected to bring a lot of changes after the years of the rule of leftist populist parties that were hostile to businesses and thus resulted in depressed investment levels. The tax system is under a major overhaul in order to stimulate growth and corporate governance is demanded to be improved in order to attract foreign capital into the country.

To sum it up, we are very bullish on the Greek economy's near and medium term (3-5 years) prospects. Greece went through a great depression during the last decade, having lost a quarter of its GDP. After the COVID-19 crisis, led by a business friendly government, the country's real GDP can grow by 5-6% p.a. in the next five years due to its huge pent-up demand and significant EU-transfers. Investments and housing will be important drivers in this growth story.

FOURLIS – A WELL-POSITIONED COMPANY TO BET ON THE GREEK REVIVAL

Due to the constant suffering of the last thirteen years the country disappeared from the radar of the investor community. As contrarian investors we believe that long years of suffering rather equals to pent-up demand. When it comes to the Greek furniture market, there is definitely pent-up demand present. Furniture sales fell dramatically after the great recession and have been lagging behind at these muted levels for the last eight years. Today the size of the furniture market is one third of its size back in 2006. In a recent comparison of EU Member States Greeks spent the least on furniture proportionally to GDP.

4 SHARE OF FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE HOUSEHOLD MAINTENANCE IN TOTAL HOUSEHOLD EXPENDITURE IN THE EU MEMBER STATES, 2019 (%)



SOURCE: EC.EUROPA.EU/EUROSTAT, HOLD ASSET MANAGEMENT

This data clearly signals a depressed consumer sentiment. And as in every great Greek drama there should be a turning point down the road. Should this turning point arrive, Fourlis is going to be well positioned to capitalize on the new trend.

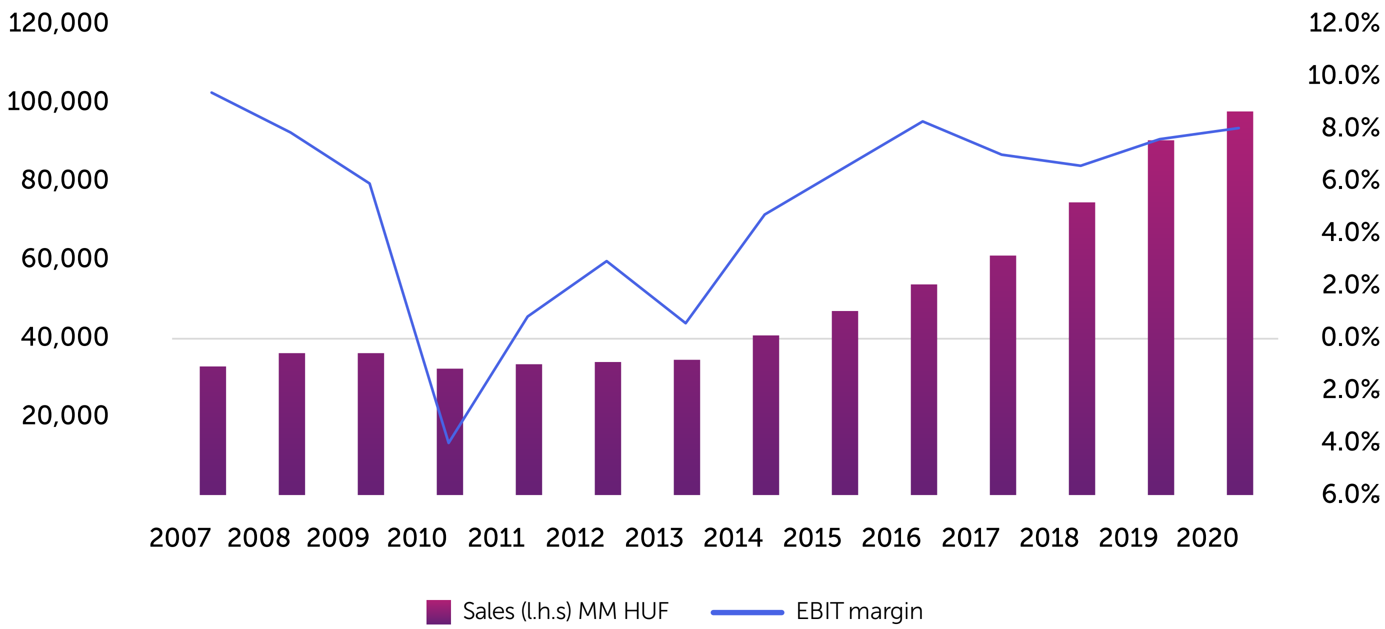
The company today is mainly a holding company, operating well established retail franchises - such as IKEA and Intersport on the Balkan Peninsula and in Turkey. An important factor for us is that the company is still controlled by the founding Fourlis family whose members are present at the table of the Board of Directors and they are also the largest (17.3%) shareholders to this day. Thus, we consider the company to be well managed, proven by the great resilience it showed in the worst possible scenario the industry could possibly face.

Fourlis' activity focuses on running the IKEA franchises; five stores in Greece, two in Bulgaria and one in Cyprus.The home furnishing segment contributed two thirds of EBITDA, so clearly the Greek IKEA operation is the main driver of the company. Enjoying the benefits of scale of economics, superior design and a well optimized tax structure IKEA offers good value for money for its customers, which is evident by its market share. We assume that sales are going to be supported by the growth in GDP, the pent-up demand coming to the market further boosted by home office gaining ground, all of which culminating in furniture spending to GDP ratio converging to the European average.

Furthermore, the company is adopting a new strategy. In order to increase its regional coverage per store, IKEA started to open up small sized stores and pick-up points. Since the franchise can reach more distant regions in the countryside this measure is expected to boost sales. Since smaller stores operate with lower cost levels, margins can improve from historic levels as well. Another important leg of the new strategy is spinning off the real estate assets into an exchange listed real estate investment trust (REIT). Fourlis owns its big box IKEA stores. As of this moment these assets are suffering from the negative sentiment surrounding the holding company. Once spun-off, these assets will benefit from a favorable tax environment and also have the chance to be valued at marked-to-market levels.

Turnaround stories like this are not unknown to us. Hungary had an analogous chapter in its economic history book. After the Great Financial Crisis, Hungary had to deal with high unemployment and a collapsing housing market. The gloom was so widespread that prior to 2013 neither households nor professional market participants expected real estate prices to recover in the foreseeable future. Shortly thereafter economic recovery arrived with the 2014 new EU budget cycle and housing prices skyrocketed by 120% in 6 years. Although the Hungarian IKEA franchise is not listed, our analyst team managed to find the financial statements for this time period. The data confirmed our thesis that a booming economic recovery affects the bottom line of IKEA disproportionately positively and more than doubled the profit of IKEA margin-wise. Sales increased by 49% only in four years' time and margins recovered to pre-crisis levels.

5 FINANCIAL PERFORMANCE OF THE HUNGARIAN IKEA FRANCHISE



SOURCE: HUNGARIAN COMPANY REGISTRY, HOLD ASSET MANAGEMENT

Using the performance of regional IKEA franchises as a yardstick we believe that Fourlis' domestic sales could significantly improve. We estimate that the Greek furniture spending to GDP ratio should reach the Hungarian level by 2025, which implies a low double digit topline growth for the Greek IKEA branch, resulting in an overall 48% increase in sales in five years' time. Thanks to the huge operating leverage inherent to the retailing industry, EBITDA should increase by a whopping 137% in the same timeframe. If we assume that the sport segment is going to be rather stable during this time then group level EBITDA should increase by 61% by 2025 and nearly double by the end of the decade due to the fact that the Greek IKEA is the major contributor to Fourlis' earnings. If our analysis is correct then the stock has a fair value in the range of 8,5 – 9 EUR per share. If we use the Slovakian market as a comparison then Greek furniture sales should increase even higher, resulting in a fair price above 10 EUR per share.