Lacuna Eastern Europe

Scuttlebutting for Value in Emerging Europe

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I. Introduction

Lacuna – 360° View

Entrepreneurial Value Investing

- Our investment style **combines a Value Investing DNA** with **experience gathered from founding and growing the Fronteris Group**, Lacuna's parent company.
- We see ourselves as **co-owners in businesses we invest in** and **focus first and foremost on the business and the people** running it.
- We believe the academic **value-growth dichotomy is mischief**:
  - Value Investing ≠ Statistically cheap and / or stagnating companies
  - We invest in undervalued companies with growth potential
- **Capital preservation focus** with attractive **risk-adjusted return potential**
  - Minimize the chance for permanent capital loss through the margin of safety principle and acquiring high cash-on-cash returns
  - Return Target: 2x MOIC over 5 years, ~15% Return p.a.

Lacuna Funds

Fund	Focus	AUM	ISIN	Inception
Lacuna Global Health+	Global Healthcare Equties	17,8 EURm	LU0247050130	31.03.2006
Lacuna Eastern Europe	Eastern European Equities	3,1m EUR	DE000A3E00L3	01.01.2023
Lacuna Wachstum	Global Equities	16,8 EURm	DE000A141UT0	30.12.2015
Lacuna Ausgewogen	Multi-Asset	11,1 EURm	DE000A141US2	30.12.2015
Lacuna Momentum	Trend-Following	5,8 EURm	DE000A141UU8	30.12.2015

Lacuna – Our People

LACUNA

Leadership

Werner Engelhardt
Founder & CIO

Manuel Kohl
Managing Director

Investment Team

Hendrik Kreilinger
Portfoliomanager

Marc Bösen
Analyst

II. Why Eastern Europe?

Top-Down Thesis

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Buoyant Economic Development

- Eastern Europe is amongst the **faster-growing** economic regions globally
- Economic Cluster with a **+230m population** that exhibits **GDP/Capita levels with catch-up potential** and attractive growth runway
- **Low indebtedness** and **improving fiscal discipline** have contributed to **increasing economic resilience**

Eastern European Equities are Cheap & Out-of-Favor

- Eastern European markets look like an **anti-bubble** – completely missed out on the latest equity bull market
- Decade+ underperformance and investors chasing returns elsewhere triggering **multi-year net outflows** and **valuation compression**
- **Market is cheap at 7-8x fwd P/E** compared to other equity market regions and **isn't valued at cyclical peak earnings** or frothy sentiment – **Mean-Reversion Potential**!

Promising Stock-Picking Environment

- Falling investor interest catalyzed **increasing cessation of market coverage** by Investment Banks and Sellside Analyst
- Less Analyst Coverage means **more frequent price/value mismatches** – higher bargain density!?
- **Smaller fund size gives us a competitive edge** - most professionals that still invest in the region are limited to larger index names that are often low-quality businesses

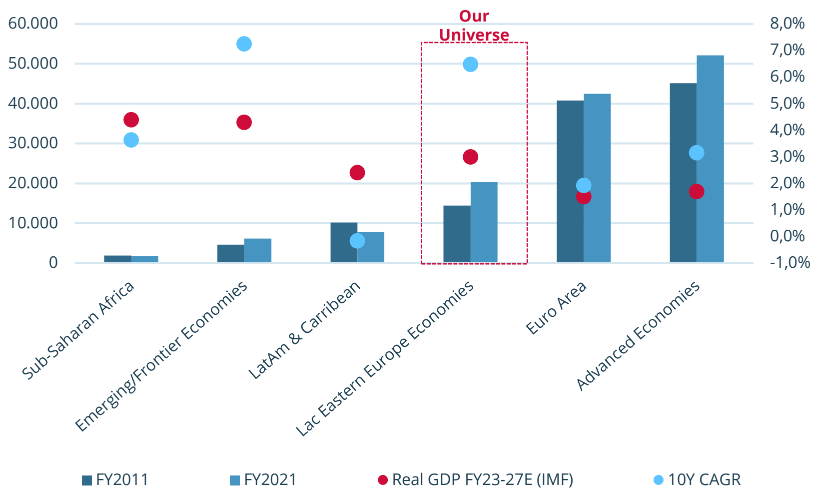
We believe that **intrinsic value investing** based on diligent fundamental analysis and with an **above-average time horizon** is a **promising approach to take advantage of this opportunity**.

Buoyant Economic Development

Attractive Economic Growth + Improving Economic Stability

Amongst Faster-Growing Economic Clusters

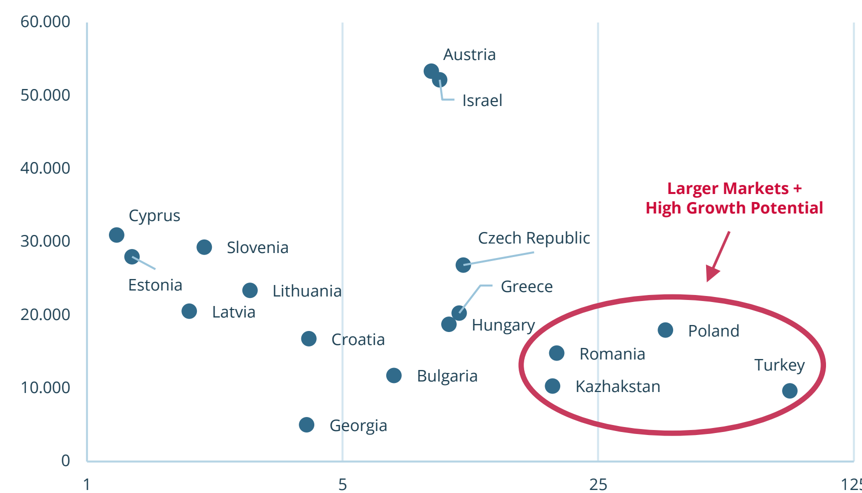
GDP/Capita in USD & IMF Medium-Term Real GDP Est.



Note: Lac Eastern Europe Economies represents median figures for countries: Austria, Bulgaria, Czech Republic, Croatia, Cyprus, Estonia, Georgia, Greece, Hungary, Israel, Kazakhstan, Latvia, Lithuania, Poland, Romania, Slovenia, Turkey.

+230m Population with GDP/Capita catch-up potential

Population (X-Axis) **vs. GDP/Capita in USD** (Y-Axis)



Source: IMF.

Buoyant Economic Development

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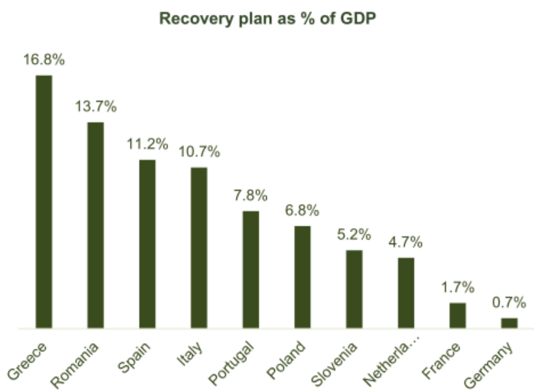
Attractive Economic Growth + Improving Economic Stability

EU RRP & MFF Funding a growth tailwind*



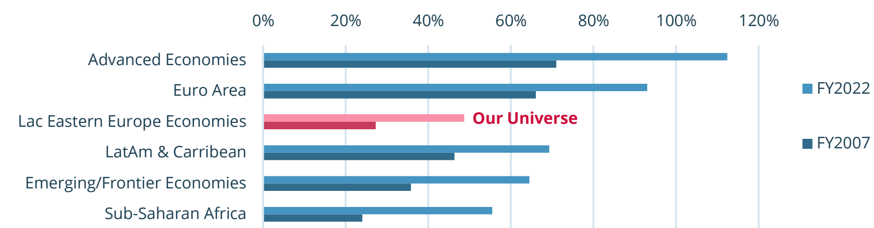
EURm	GDP	RRP grants	MFF 2021-27	% GDP
Poland	574.4	23.9	106.2	**23%**
Romania	**240.2**	**14.2**	**51.3**	**27%**
Czech Republic	238.7	7.1	29.7	**15%**
Greece	182.8	17.8	40.4	**32%**
Hungary	154.1	7.2	34.5	**27%**

Source: Eurostat, ec.europa.eu

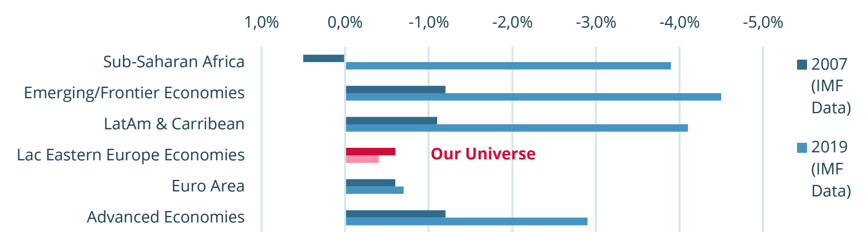
Source: Wood & Company.
* RRP = Resilience & Recovery Plan; MFF = Multiannual Financial Framework.

Low Debt + Improving Fiscal Situation

Public Debt % GDP - Current vs. Pre-GFC



Fiscal Deficit (-) / Surplus (+) % GDP



Source: IMF. Lac Eastern Europe Economies represents median figure for countries mentioned on page 9.

Out-of-Favor and Cheap Valuation

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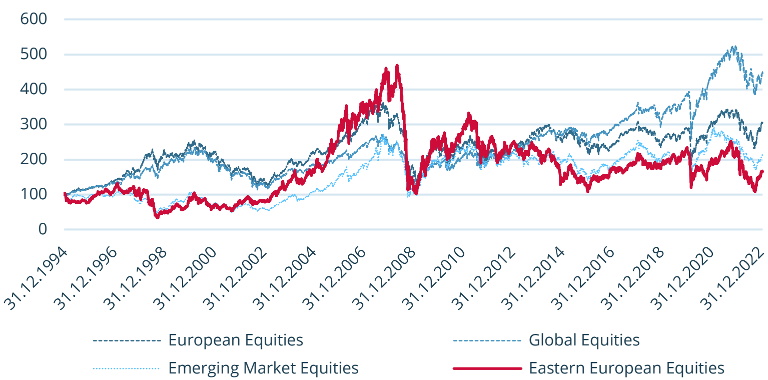
Decade+ of Underperformance & Ukrainian War → „Ickyness“

Eastern Europe missed out on post-GFC bull market…

Indexed Price Performance (EUR)

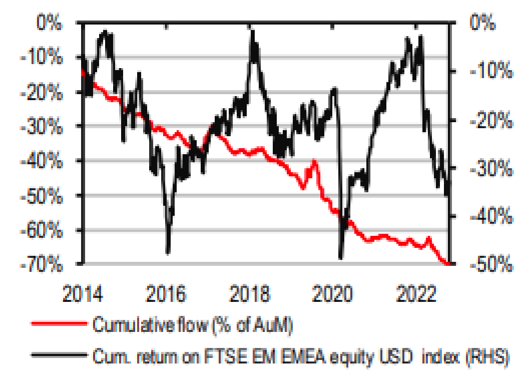


Note: The performance of the Eastern European market was adjusted from the beginning of 2022, to mitigate the distorting effect of Russian asset write-downs.

Nowcasting implies Asset Class is “broken”
→ Contrarian Buy-Signal

…classic return chasing causes multi-year outflows

Chart 106. EMEA Equity Funds



Source: FTSE, EPFR Global, Factset, HSBC

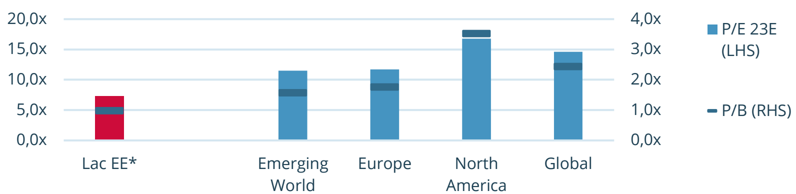
“when risks and bad news are known to the market and fear is prevalent, it’s time to buy what’s out of favor, unloved, and legitimately creating fear.” – Rob Arnott

Out-of-Favor and Cheap Valuation

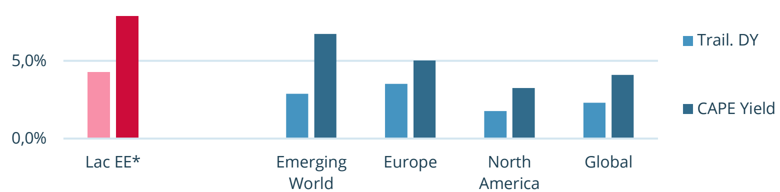
Reflexivity leading multi-year valuation compression to historic extremes

Cheap Valuation, High Yield

Fwd P/E and P/B

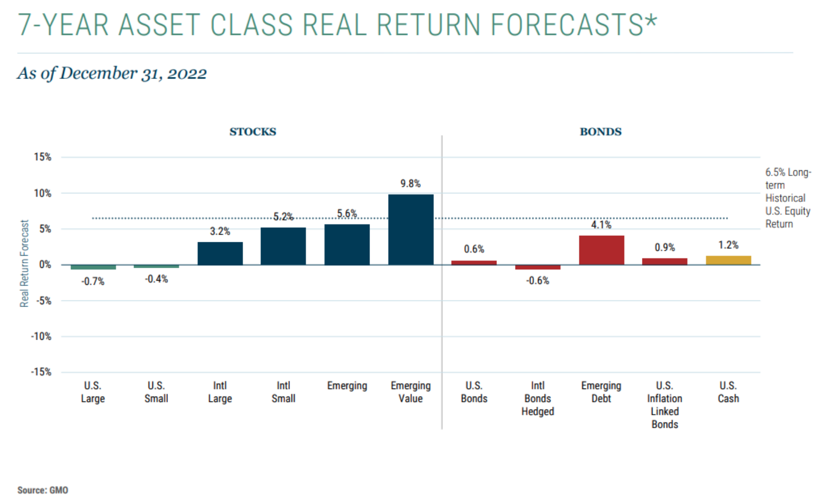


Cash on Cash Yield



Note: Data from Citi Market Intelligence; *Lac EE metrics derived from part of universe with existing data – Austria, Czech Republic, Greece, Hungary, Israel, Poland, Turkey.

Superior Return Potential



Historically, **low starting valuations** are an indicator of **above-average returns in the long term**! **Multi-year mean-reversion tailwinds appear likely**, based on historic precedence.

Promising Stock-Picking Environment

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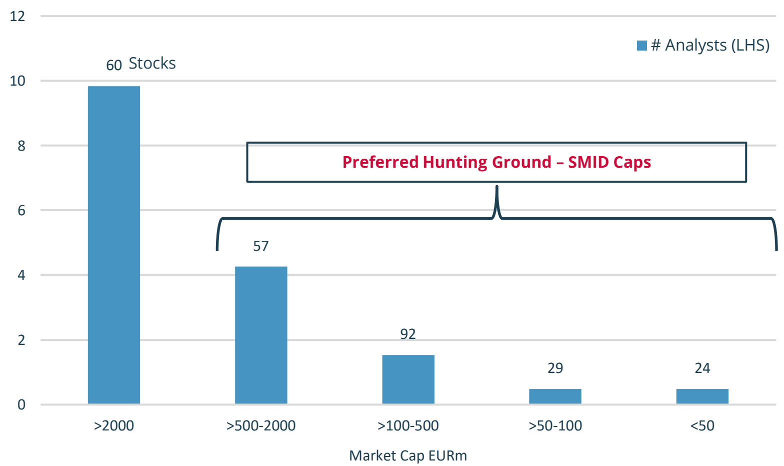
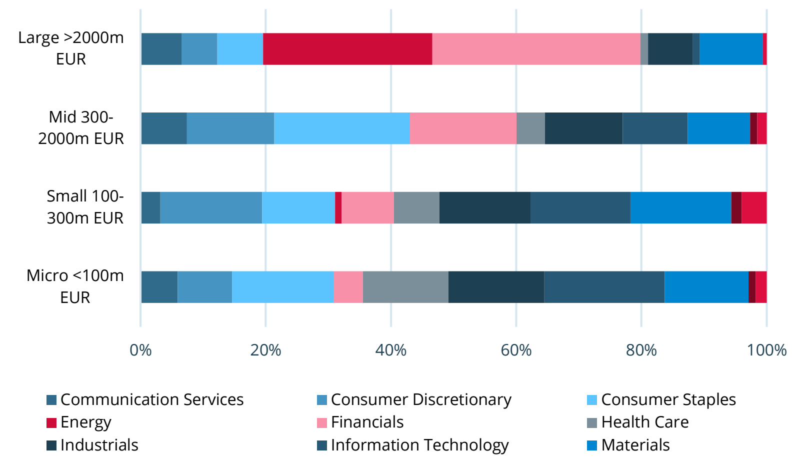
Low Sellside Coverage & Gems hiding in less competitive SMID Cap Segment

77% of Universe with 4 or less covering Analysts



SMID Cap Segment offers more Economic Diversity



Less Coverage increases chance to find meaningful undervaluations in Eastern European SMID Caps

Higher quality business models with the ability to convert growth into shareholder returns more prevalent in SMID Caps

III. Investment Strategy

Investment Universe

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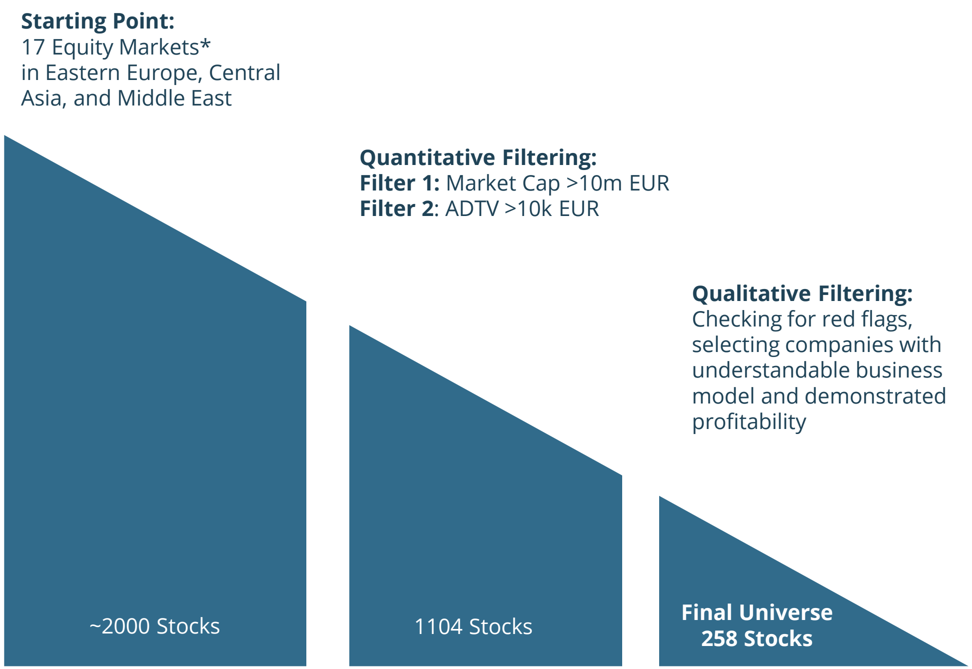
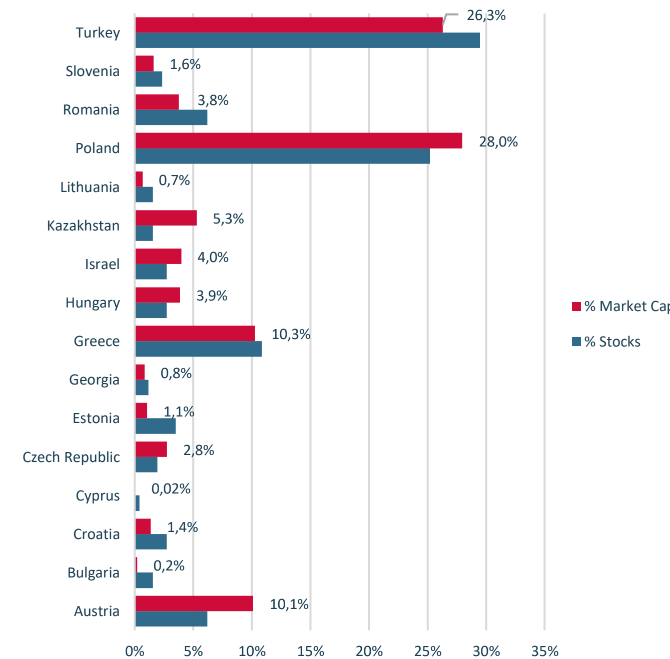
Universe Methodology



Geographic Composition



* Included Markets: Austria, Bulgaria, Czech Republic, Croatia, Cyprus, Estonia, Georgia, Greece, Hungary, Israel, Kazakhstan, Latvia, Lithuania, Poland, Romania, Slovenia, Turkey.

Investment Process Framework

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Investment Analysis Lifecycle

Idea Generation

- **Organic Idea Generation**:
  - Personal Experience
  - Trend Identification
- **Inorganic Idea Generation**:
  - Buyside Resources
  - Investor Network
  - Industry Experts
  - Sellside -> Less Preferred
- **Quantitative Screening:**
  - 1st Layer – Quality (ROIC, Margin)
  - 2nd Layer – Valuation (Yield)
  "What do I get, What do I pay."
- **Toolbox of old ideas/holdings**

Fundamental Analysis

- **Business Model**:
  - Understandability & Viability
  - Money Making / Unit Economics
- **Industry Structure**:
  - Evolution, Relevant Players
  - Cyclical/Structural Trends
  - Entry Barriers / Measuring Moat
- **Channel-Check – Interviewing**:
  - Suppliers/Customers/Employees
  - Trade Fairs
- **Cap. Allocation, Mgmt. Quality**:
  - Quality of Capital Allocation
  - Alignment of incentives

Valuation Analysis

- **Greenwald Method**:
  - Adj. NAV
  - Steady-State Value
  - Value of Growth
  We want growth, but not to pay up
  Entry Price < Steady-State Value
- **Total-Shareholder Return Model**
  Inspired by McKinsey Valuation
- **Private-Market- / Peer-Multiples**
- **Valuation Guardrail:** >4% FCF Yield
- **Measuring Margin of Safety** and calculating adequate Entry Price

Decision-making & Monitoring

- **Target Investment Profile**:
  - Significant Undervaluation
  → Min. 30% Margin of Safety
  - Reasonable Business Quality
  - Financial Strength
  - Honest, aligned, capable operators
- **Post-Analysis Trinomial Path**:
  1) 5Y IRR > 15% Hurdle + Quality- & Return-accretive to Portfolio = **Buy**
  2) 5Y IRR > 15% Hurdle + Business we'd like to own at some point = **Watchlist I**
  3) Not fulfilling 15% Hurdle = **Watchlist II**
- **Monitoring Price/Fundamentals:**
  Portfolio & WL-I Quarterly

Emphasize primary research for an independent as well as evidence-based analysis and formation of an opinion, while benchmarking with secondary research to gauge value triggers and expecations gaps!

Portfolio Construction Framework

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Guiding Principles

1. Fish Where the Fish Are:
- Market segment <500m EUR Market Cap will be main hunting ground.
- Lower competition due to size and liquidity constraints and little analyst coverage makes SMID Caps a fertile ground for mispricings.
- Long-term entrepreneurial success stories take place in SMID Caps.

2. Sophisticated Contrarianism:
- Owning the same things as others won‘t enable us to achieve above-average investment results in the long run.
- We strive to diverge from the crowd when we are well compensated.

3. Avoid Dumb Mistakes:
- We agree with Ben Graham that Safety of Principal must be #1 priority in investment operations, hence we avoid situations where probability and/or severity of a permanent loss of capital can‘t be estimated. Examples – high leverage, managers lacking integrity, fragile operations.

4. Concentrate, but not excessively:
- Empirical research shows a portfolio of c. 25 unrelated stocks allows to capture most diversification benefits – Alpha dilution from #30 onwards.
- We prefer a more concentrated portfolio than most active managers but want at least 20 holdings to mitigate „unknown unknowns“.

Portfolio Characteristics

Portfolio Holdings:	20-30
Return Requirement:	Min. 15% IRR
Time-Horizon:	3-5 Years
Implied Turnover:	20-33%
Cash Management:	Residual Opportunity Set
Position Sizing:	
• At Cost %:	2 / 4 / 6
• Max. Position Weight:	10%
• Exit Triggers:	1) Fair Value 2) Thesis Broke 3) Better Idea

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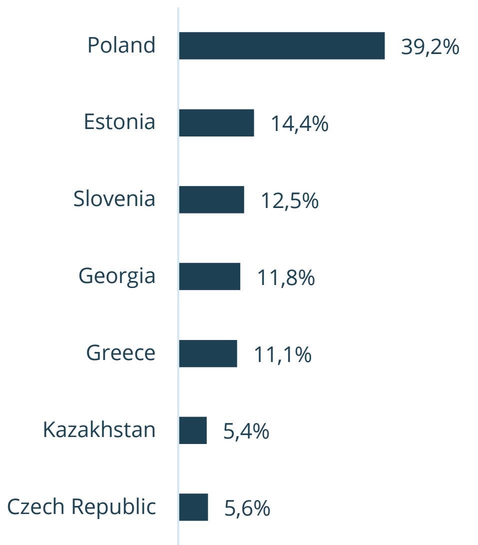
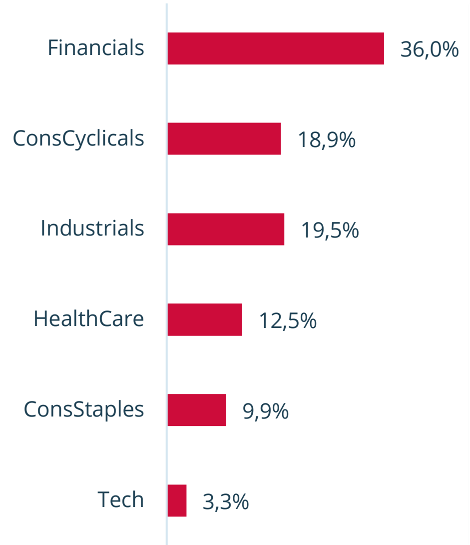
IV. Portfolio Snapshot

Portfolio Allocation

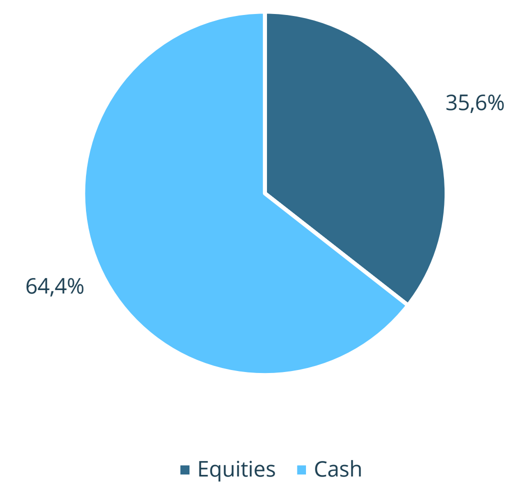
Equity Allocation - Country



Equity Allocation - Sector



Asset Allocation



Portfolio Statistics and Top Holdings

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Portfolio Statistics - Median Values

	Lacuna Eastern Europe*	Universe Proxy
Market Cap EURm	403,6	2.821
Fwd P/E	9,7	7,4
Dividend Yield (Trail.)	4,2%	3,8%
Net Margin	19,2%	
ROE	16,9%	
+5Y Org. Sales Growth	8,0%	
Margin of Safety	45,4%	
Upside to Intrinsic Value	83,2%	

Data from January 31st 2023.
*Median Values for Lacuna Eastern Europe.

Top Holdings

TIM S.A.	6,9%
AS Ekspress Grupp	5,1%
Krka, d. d.	4,4%
Warsaw Exchange	4,2%
Georgia Capital	4,2%
Hellenic Exchanges	2,5%
Philip Morris CR a.s.	2,0%
Halyk Bank	1,9%
Grupa Pracuj S.A.	1,6%
Kri-Kri Milk Industry S.A.	1,5%

Top 5	**24,9%**
Top 10	**34,4%**

V. Case Studies

#1: AS Ekspress Grupp

Business Profile

- Ekspress Grupp is the **leading media group in the Baltic Countries**.
- History traces back to the early post-soviet years and its legacy begins with Eesti Ekspress (#4 Newspaper in Estonia), the **first politically independent newspaper** in Estonia. **The editor-in-chief of Eesti Ekspress was Mr. Hans Luik**, who is today Ekspress Grupp's **anchor shareholder** (73,2%) and became a co-owner of the business in 1991.
- **Mr. Luik built a Baltic media empire** through organic initiatives and M&A in the last 30 years.
- Today, Ekspress Grupp operates **iconic internet media portals**, magazines, and newspapers, and controls the Baltics' **largest digital ads network** (Digital Matter).
- Its **Delfi media websites are market leaders** by users and time spent in Estonia, Latvia, and Lithuania – **An audience of 3m Baltic individuals per week**.
- **Quality of the core media business has historically been underappreciated**, as an original presence in low-margin printing services diluted group margins.
- Important – **Exit from shrinking legacy printing operations in 2021**.

EKSPRESS GRUPP

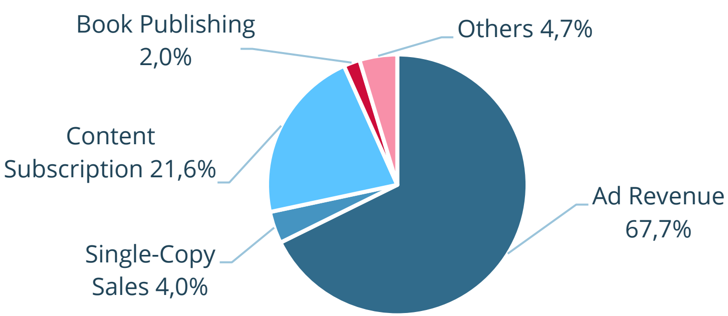
			09.02.2023
CIQ Ticker	TLSE:EEG1T	Share Price EUR	1,67
Country	Estonia	x O/Sm	30,3
Industry Group	Media	**Market Cap EURm**	**50,5**
Industry	Publishing	Cash & STI	6,1
# Employees	900	Gross Debt	-16
Rev/FTE EURk	70,0	**EV EURm**	**60,4**

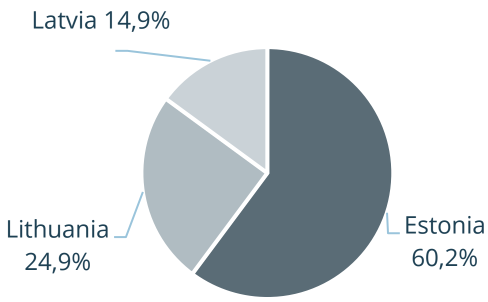
Cont. Ops	**FY20**	**FY21**	**FY22E**	**FY23E**
Sales	43,7	52,1	63,0	63,0
EBITDA	6,6	8,9	8,0	9,0
Margin	*15,1%*	*17,1%*	*12,7%*	*14,3%*
EV/S	1,4x	1,2x	1,0x	1,0x
EV/EBITDA	9,2x	6,8x	7,6x	6,7x

Owner & Chairman Hans Luik

#1: AS Ekspress Grupp

Revenue Split: Service / Region





Media Ecosystem

Source: AS Ekspress, 2021 Annual Report.

#1: AS Ekspress Grupp

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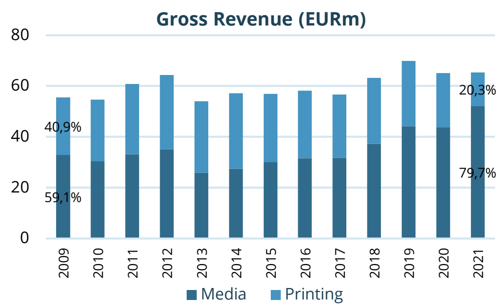
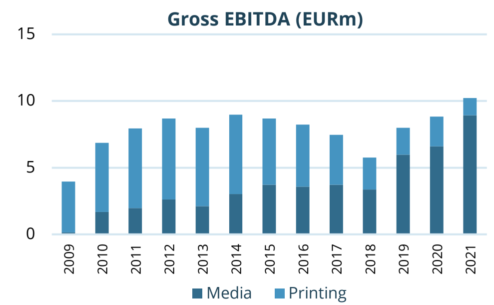
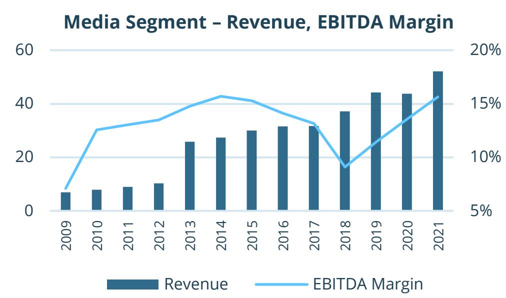
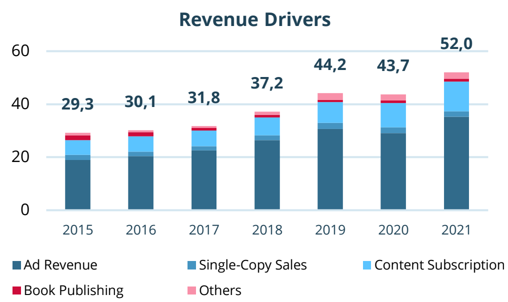
Financial Performance





Financial Performance – Ex Printing





First Look:
No growth – **value trap**

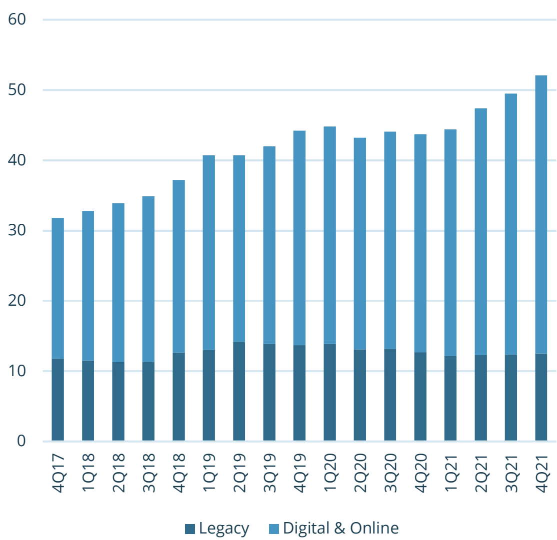
Second Look:
No growth due to structural decline in printing. Media is growing and already main profit generator
→ **Divestment from Printing is inflection point**

Ekspress post divestment:
More focused, asset-light, growing
→ **more valuable!**

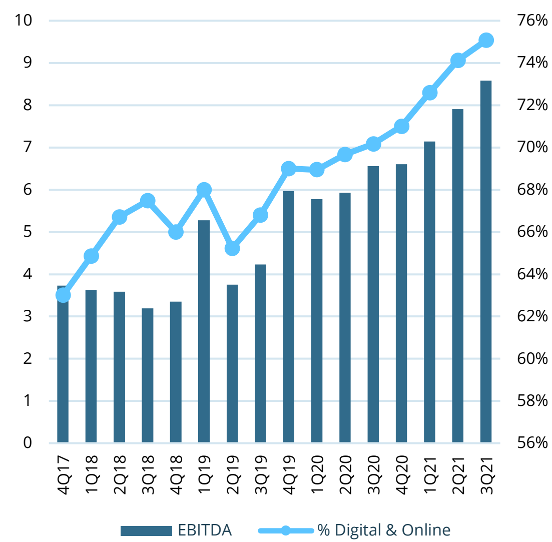
#1: AS Ekspress Grupp

While the advent of the internet and the world's shift towards digital was a pain point for many legacy media outlets since the early 2000s, **Ekspress is a textbook example of how to embrace digitalization to improve the strength and durability of a news media business**!

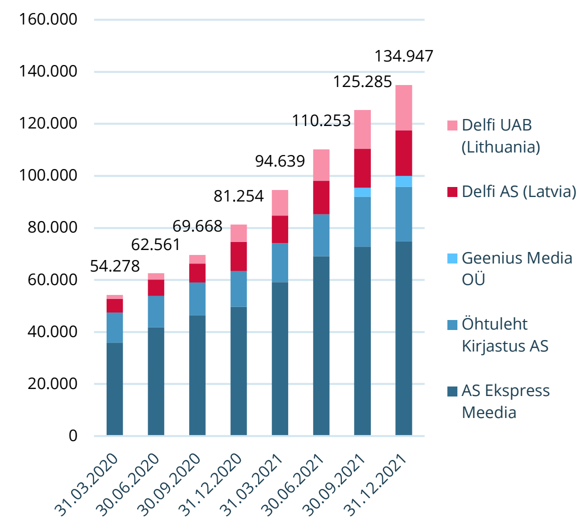
TTM Revenue Media Segment



TTM EBITDA vs. Digital Revenue Share



Digital Subscriptions



#1: AS Ekspress Grupp

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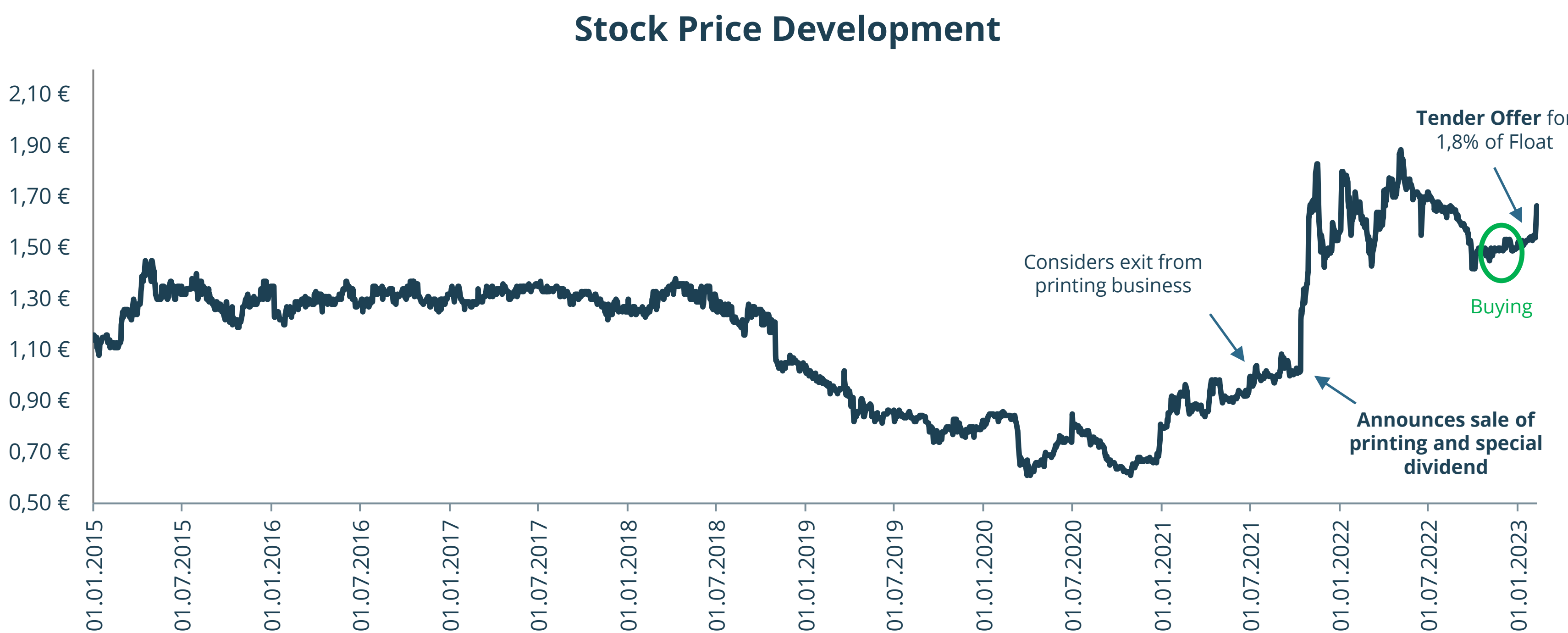

#1: AS Ekspress Grupp

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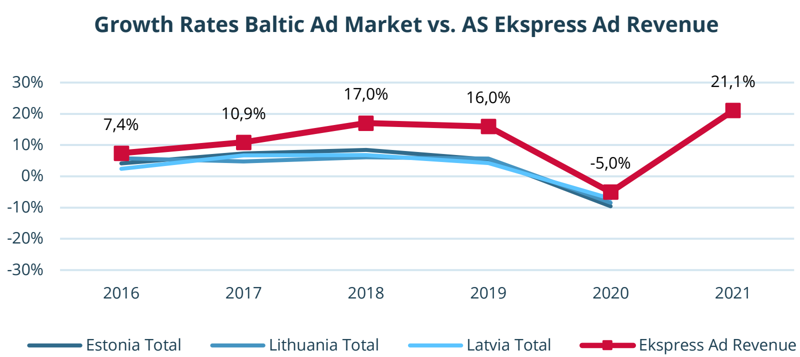
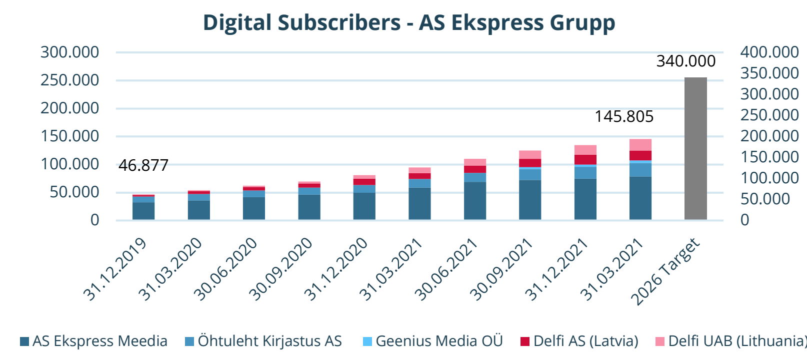
Future Growth Opportunities

1) Digital Advertising



- **Digital Ads winning market share**
  In Estonia from 17% → 49% since 2010
- Company owns **„Prime Real Estate" for Digital Ads**

2) Digital Subscriptions



- Ongoing **switch** from print- to digital-content-subscriptions → **ROIC accretive**
- **2026 Target: 130% Growth in Subs** from FY21 levels
- **Bolt-on M&A** – E.g., Geenius, Lrytas.lt

#1: AS Ekspress Grupp

Valuation & Return Potential

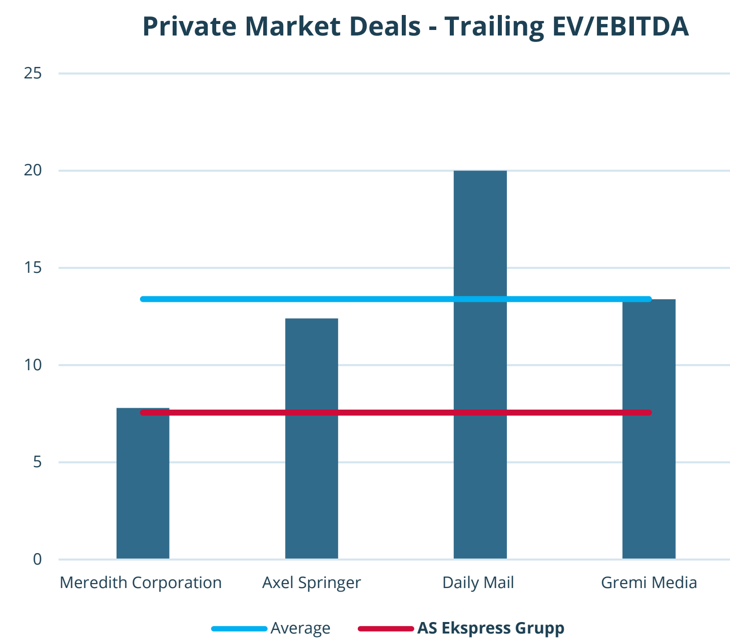
- **World going digital changed the way media is consumed.**
  The market bifurcated into „winners“ and „losers“.

- **Companies that lag in terms of digital adoption trade at steep relative discounts** to players that lead the digital transformation process - E.g., Schibsted, Alma Media, NY Times.

- **Ekspress Grupp’s contribution from Digital Revenue is ~80%**, which is on par with “Digital Leaders” like Alma Media. Still trades at a **+40% Discount to M&A multiples.**

- **Stock is priced to deliver ~20% 5Y IRR:**
  10% Norm. FCF Yield + Exp. 5Y FCF CAGR of >10%

Comp. M&A Deals



Source: Deal Multiples from S&P Capital IQ.

#2: TIM S.A.

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Business Profile

- TIM is **Poland's largest wholesale distributor of electrical components** with a **fast-growing third-party logistics** business attached to it ("3LP").
- The **company was founded in 1987 by two friends Krzystof Folta and Krzysztof Wieczorkowski**, who are **still involved as CEO and Chairman** and **control in aggregate 36% of O/S**.
- **In 2013, TIM decided to revamp its business** from being a 25-year-old network of electrical wholesalers into a modern distributor of electrical components. **The first mover in seriously pursuing a B2B eCommerce approach in its industry → Better unit economics.**
- **Sales process has been successfully digitalized** over the years. Operates with TIM.pl go-to-platform. Recently mTIM Smartphone-App launched.
- **Build-out and success of the logistic services subsidiary is a testament to TIM's entrepreneurial DNA** – Infrastructure needed for B2B eCommerce →„making a virtue out of a necessity"!

TIM

			09.02.2023
CIQ Ticker	WSE:TIM	Share Price EUR	36,10
Country	Poland	x O/Sm	22,2
Industry Group	Capital Goods	**Market Cap PLNm**	**801,4**
Industry	Distributor	Cash & STI	23,2
# Employees	579	Gross Debt	-131,2
Rev/FTE EURk	558,8	**EV PLNm**	**955,8**

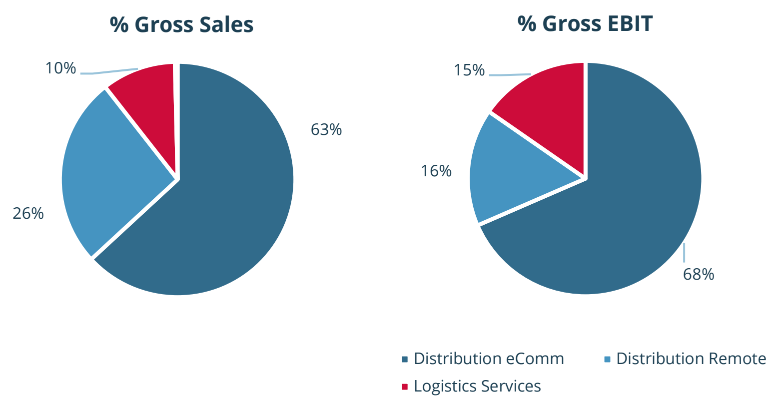
	FY20	**FY21**	**TTM**	**FY22E**
Sales	1064,9	1314,3	1500,6	1456,0
EBITDA	73,9	142,1	156,5	151,5
Margin	*6,9%*	*10,8%*	*10,4%*	*10,4%*
EV/S	0,7x	0,5x	0,5x	0,5x
EV/EBITDA	9,4x	4,9x	4,4x	4,6x

Founder & CEO Krzysztof Folta

#2: TIM S.A.

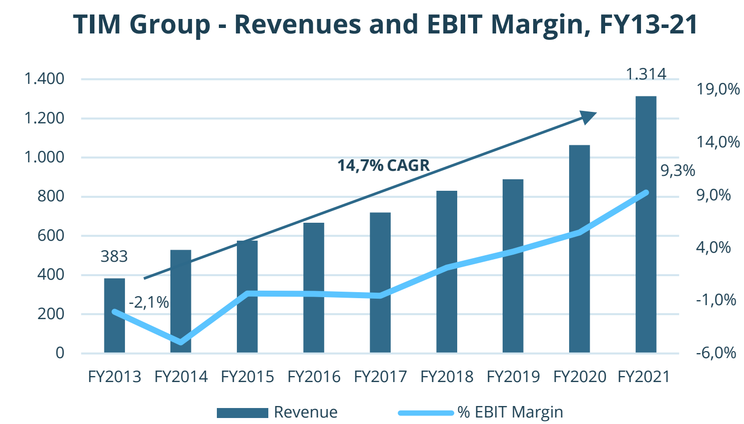
LACUNA

Sales & EBIT Split



- **Distribution remains the core:** FY21 EBIT contribution of 84%
- **Continuing mix shift to 3LP is margin-accretive:** EBIT Margin of ~13% in FY21, +20% growth p.a.

Group Financial Performance



- **Switch to B2B eCommerce model improved business quality**, drove significant growth and margin improvement
- **Sustainable EBIT Margin should be 6-7%** - FY21 level is inflated by one-offs (pandemic, PPI inflation)

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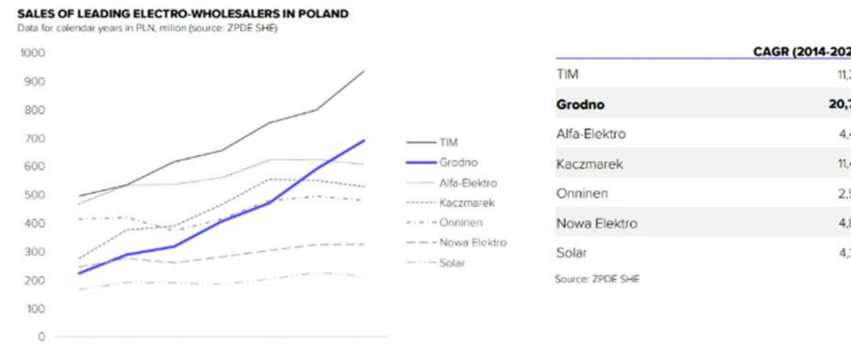
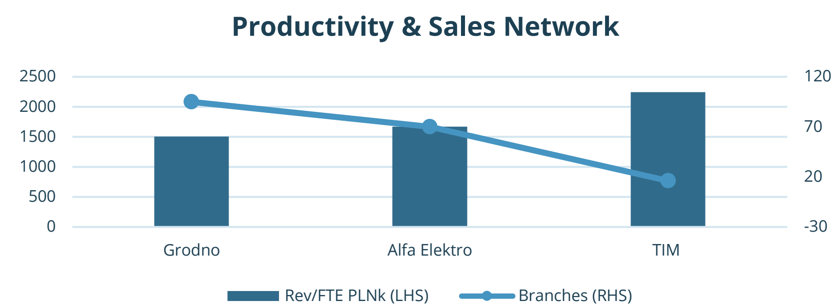
Distribution – Winning through Scale, Efficiency and Customer-Centricity

- **TIM is the largest player** in the Polish electro-wholesale industry with a **market share of ~12%** (Mgmt. comments).
- TIM has been **increasing its market share for a decade+**, steadily **extending its relative scale-linked cost advantage** over smaller competitors.
- TIM's approach of **centralizing distribution** as well as **offloading a significant share of the sales process to its online platform** allows for **better productivity and scalability**.
- **Competitors largely stuck with the old school wholesaler model** – dependent on physical branch networks





Source: Illustration on Electro Wholesalers from Alexander Eliasson Write-Up on Grodno. Data on Rev/FTE was gathered from S&P Capital IQ, and Branch Count was gathered from company websites.

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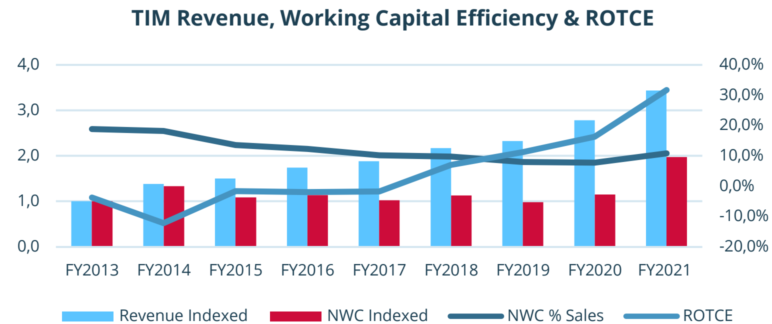
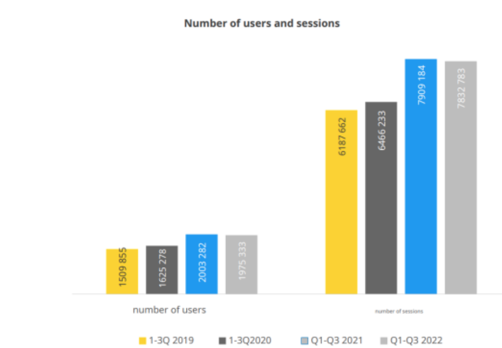
Distribution – Winning through Scale, Efficiency and Customer-Centricity

- **Economies of Scale and productivity gains improved margins**, while the modification of the business model also **lowered capital intensity**.

- **Better working capital efficiency** has substantially improved invested capital turnover, **supporting improvement in ROTCE** to above-industry-average.
  → **Increased FCF Capacity = Higher Intrinsic Value**.

- While the company was clearly a Covid-winner, the **number of online users and engagement has remained stable** in 2022.
  → TIM's approach seems to offer **sustainable customer value**!



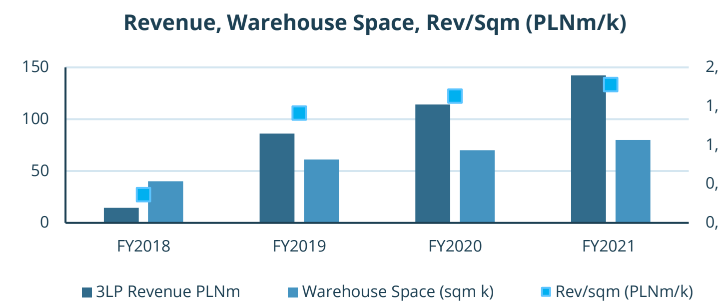


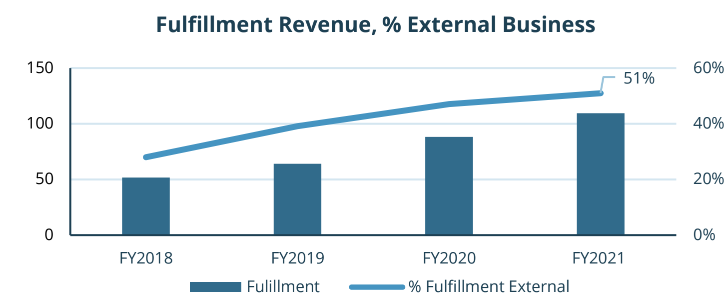
Source: TIM SA 3Q22 Earnings Presentation.

#2: TIM S.A.

3LP – Riding the eCommerce growth trend

- 3LP is **one of the largest full-service fulfillment players** in Poland
- **There are 10-15 companies that are fulfillment pure-plays**, while ~60 companies have partial coverage of the fulfillment service value chain. **Industry structure is fragmented and determined to consolidate** once the current phase of high industry growth tapers off.
- **Typical clients are predominantly SMEs** without the scale or funds that a build-out of an internal fulfillment infrastructure reasonable. **TIM also has two larger clients with IKEA Poland and Oponeo.pl**, which suggests that 3LP is a **relevant address** in its industry.
- **Continued high growth of Polish eCommerce** should be a **tailwind** for warehouse space and fulfillment demand
→ 3LP is in the process of doubling its capacity until 2024





#2: TIM S.A.

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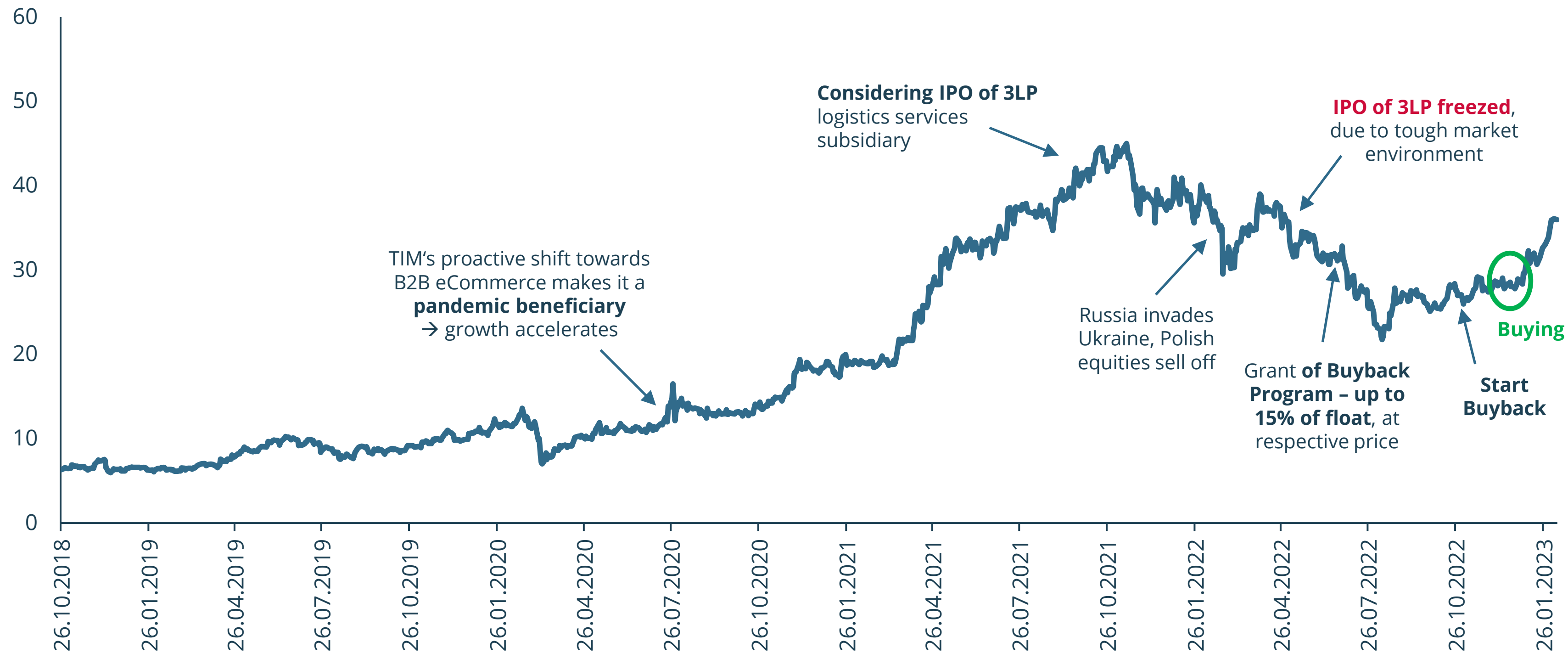
Stock Price Development



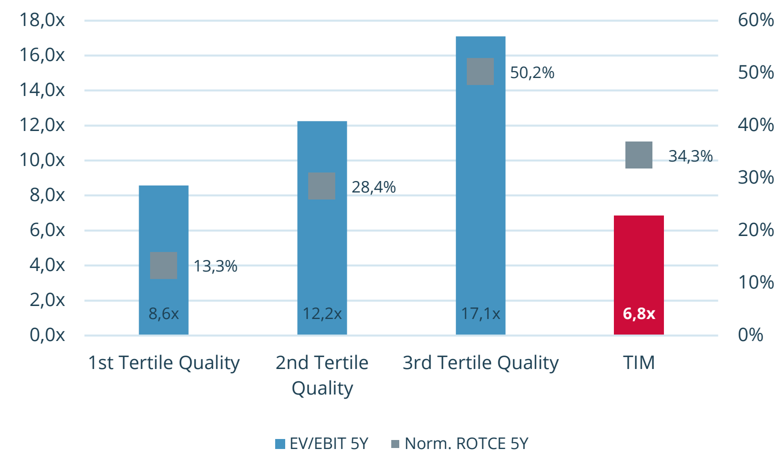
#2: TIM S.A.

Valuation & Return Potential

- **Stock is cheap on an absolute and relative level:**
    - **~7x fwd EV/EBIT and ~9x fwd P/E are undemanding** considered in the context of solid business quality and 7-10% p.a. growth potential
    - Triangulating a **fair value based on Peer EV/EBIT vs. ROTCE** implies **+80% upside**
- FY26 Revenue Target of PLN 3bn:
  Our Base Case (FY26) Rev 1,9bn, 6% EBIT Margin, 10x EV/EBIT Exit Multiple
  → **+60 PLN Stock, +70% Upside ex Dividends**
- **Potential 3LP IPO** as **catalyst for further value-unlocking** in the future

Peer Group Valuation

Distributors – Relative Valuation vs. Quality



Note: Data from S&P Capital IQ, Sample including 28 global publicly listed distributor stocks. TIM's EV/EBIT is based on TTM instead of the 5Y Average. The exercise aims to gauge where a company with comparable economics should be valued at. Norm. ROTCE uses a 5Y avg. EBIT Margin for computation.

VI. Factsheet & Contact

Factsheet & Contact

Factsheet

Name	Lacuna Eastern Europe TGV
WKN / ISIN	DE000A3E00L3
Fund Category	AIF, § 282 KAGB
Investment Universe / Focus	Global Equities / Central and Eastern Europe, Central Asia, MENA
Investment Strategy	Active, Bottom-up Selection
Benchmark	Benchmark-free
Fund Advisor / Manager	Lacuna Vermögen GmbH / Hendrik Kreilinger
Auditor	Grant Thornton, Düsseldorf
Inception Date	30.12.2022
Currency	EUR
Total Net Assets (31.01.2023)	3.071.040 €
Initial Price	1.000,00 €
NAV per Share (31.01.2023)	1.023,68 €
Qualified Investors	Professional, Semi-Professional*
Subscription Cycle	Quarterly
Min. Subscription	200.000 €
Redemption	Quarterly
Exit Fee	1%, if holding period < 3 years
Fiscal-year end	30.06.2023
Profit Allocation	Accumulating**
TER (running costs)	1,3%
Management Fee	1,0%
Performance Fee	10% p.a. (High Watermark)

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