Transcript: Exor Half-Year 2023 results conference call

Speaker and Q&A Participants

- Guido de Boer**, Chief Financial Officer**
- Joren Van Aken**, Degroof Petercam analyst**
- Martino De Ambroggi**, Equita analyst**
- David Vagman**, ING analyst**

Presentation

Operator:

Welcome, and thank you for joining Exor's Half Year 2023 Results Conference Call. Please note that the presentation materials and the related press release are available for download on Exor's website www.exor.com under the Investors and Media Financial Results section and any forward-looking statements made during this call are covered by the Safe Harbor statement included in the presentation material.

As a reminder, all participants are in listen-only mode. Later there will be a brief question-and-answer session. Please note that this conference is being recorded.

At this time, I would like to turn the conference over to Exor's, Chief Financial Officer, Guido de Boer. Sir, you might now begin.

Guido de Boer:

Thank you, Nadia. Good afternoon to everyone and good morning to who is listening-in from the US. Thank you for joining today on this presentation of the first half results, which is our first conference call in quite a while and we intend to make it more regular in the future.

Main highlights

Let me maybe start by sharing the main financial highlights for this first half.

- Our NAV increased to EUR 34.2 billion at the end of June from EUR 28.2 billion at the end of 2022 and the main driver has been the strong performance of our listed companies as we will see later on.

- Our net debt stood at a bit over EUR 100 million at the end of June from a net cash position of about EUR 800 million at year-end 2022, mainly because we have redeployed cash into investments, which we will detail in a bit later in the presentation.

- Finally, yesterday we announced a new EUR 1 billion share buyback program, of which up to EUR 750 million will be executed through a tender offer. The offer period starts today and will be open for 21 days, which we will explain later on in this presentation.

Continued outperformance of NAV per share over benchmark

As you all know, our main financial objective is to grow NAV per share and to outperform the MSCI World Index and we did that in this first half.

We increased our NAV per share by 22.8%, which was double of what the MSCI World Index delivered in the same period. And we don't intend to do this just over a shorter period, our objective is to deliver long-term compounded results.

So, if you look at the track record since inception (since Exor started in 2009) our NAV per share has been growing at a compounded annual growth rate of close to 19% compared to 11% for the MSCI World Index. So, performance both short and long-term is something we are quite pleased with.

Main performance drivers

If we move to the drivers behind our performance in the first half, we grew our gross asset value by EUR 5.9 billion. And if we look at the components, our listed companies, which represent around 70% of our GAV, were the main drivers of this performance. Listed companies increased by EUR5.3 billion in value, with the main contributors being Ferrari and Stellantis that have strong performance across the board.

In investments, which includes Lingotto our asset manager, as well as Ventures, increased by EUR 0.5 billion, accounted for around EUR 400 million from additional cash deployed and the remainder for positive fair value adjustments in the Lingotto funds.

And the other category, which includes liquidity and other assets, decreased by EUR 400 million mainly due to the cash outflows from our new investments and partly offset by the dividends we received from our companies and positive fair value adjustment of listed securities that we hold as well as the reinsurance vehicles that we received as part of the PartnerRe transaction.

Net financial position

We move to the net financial position. As I mentioned earlier, we had a net debt position of EUR 133 million from a cash position of EUR 795 million at the start of the year and still with a loan-to-value ratio which is close to zero.

The main driver of that change has been the circa EUR 1.3 billion deployed into company's investment with the most significant ones being the EUR 0.5 billion invested for a stake just below 3% in Philips which we, as you've all seen, increased to 15% in August and the EUR 400 million we invested in the funds managed by Lingotto, the asset management company that we founded earlier this year.

Other key movements are the dividends received from our companies, which showed very, very good growth on the back of their performance for EUR 815 million. The regular dividend we paid out for around EUR 100 million and the final tranches of the previous buyback program where we spent EUR 246 million in the first half. And with that, completing the program ahead of time that we announced in 2022.

We are making good progress in redeploying PartnerRe proceeds

Then moving on to our reinvestment of the PartnerRe proceeds, where we made good progress in the first half.

In November 2022, we held our Investor Meeting and we indicated with you how we would allocate the EUR 6.5 billion that we have available for the coming periods. There we said we would allocate EUR 5 billion to companies and till date we have deployed a total of EUR 4 billion to acquire the 15% stake in Philips, to do the EUR 1 billion share buyback program as well as to do the follow-on investment in Via and the new partnership with Impala to develop TagEnergy both that we announced earlier. This basically leaves us broadly around EUR 1 billion to still deploy into companies.

And on the investment side, we said we would allocate around EUR 1.5 billion to Lingotto and to Ventures, of which we, in first half, have allocated close to EUR 0.5 billion to both initiatives, also with EUR 1 billion left to deploy between Lingotto and Ventures.

New share buyback program and launch of Tender Offer

Then moving onto the share buyback, I want to spend a bit of time to go into more details on the buyback that we announced yesterday, given that it's significant in size (being around 12% of our free float and 5% of our market cap).

We believe that the current value of Exor provides an attractive opportunity to invest in our own companies through buying back our own shares given the discount that we trade at.

And we plan to do this through a combination of a tender offer and on market buyback.

The tender offer we have chosen because it allows us to acquire a significant amount of shares in the short time frame, given that the on-market purchase for this amount would take probably around three years.

So, the tender offer will be for up to EUR 750 million with a book building process with the price range between 3% discount and a 10% premium compared to the reference VWAP in the offer period, being capped at 10% of yesterday's closing price.

Based on the order book, the appointed dealer manager banks will determine the lowest price at which the full EUR 750 million is allocated or at the highest price tendered not exceeding the cap, and also obviously the price will not exceed the AGM authorization and the limits that you see in the offering memorandum.

We have Giovanni Agnelli, our largest shareholder providing an irrevocable commitment to participate for an amount of EUR 250 million at the reference VWAP, so not at a premium, but at the referenced VWAP in order to reduce its net debt position.

As I've said the tender offer period will start today and run for 21 days. After the tender offer, we plan to start the cancellation process of the purchased shares as well as any treasury shares that we currently hold and are not needed for stock option plans.

Post the tender offer, we will launch an on-market buyback for the remaining amount including any amount which are not tendered as part of this EUR 750 million tender process.

So, with that, I conclude the formal comments that I wanted to make, and I'm pleased to open the Q&A session to address any questions that you may have.

Q&A

Operator:

Thank you. We will now begin the question-and-answer session.

(Q&A Instructions via conference call)

And the first question comes from the line of Joren Van Aken from Degroof Petercam. Your line is open, please ask your question.

Joren van Aken:

Yes, good afternoon and thank you for doing this call.

First one, you have always stated that growing NAV is number one priority. And you mentioned it in the beginning as well. But basically, what you're seeing now, or what the Board is saying, is that they find the discount too high with this tender offering.

So, my question is, has there anything changed in the vision on the discount versus the NAV growth priorities?

And maybe, as an add-on on that one, will share buybacks therefore become something more structural going forward as long as the discount is high?

And then if I may a question on Philips. It seems to be somewhat of a peculiar investment for Exor, because in the past we've seen you partnered up with entrepreneurial families, companies with strong pricing power, nice margins and Philips is much more of a turnaround candidate it seems. So, could you maybe explain us a bit more of the rationale behind this investment? Did something into the discussions with management spark your attention that made you pull the trigger? Thank you.

Guido de Boer:

Thank you, Joren, for these questions. Let me take them one by one. On the choice for buyback. This is consistent with what we've said also in the past, where we said buybacks are part of a broader capital allocation decision, which we make on multiple factors.

Firstly, how much opportunities do we have to invest in companies, in Lingotto and in Ventures, and what are the expected return on risk trade-offs that we see there.

But we also take into account discount levels, we take into account the leverage that we have and, for considering a buyback, we should also take into account maintaining the right levels of liquidity in the stock and volumes of trading in our shares.

So, I think it's a combination of these kind of things where we decide does it make more sense to invest in companies, in our investments or buyback.

So, we will make that assessment on an ongoing basis whenever we have funds to invest. So, in that sense, I would say it's continuation of how we operate. But I think also a very strong sign on the strength of our companies and the attractiveness of the price at which we can invest indirectly in our company through buybacks.

Then maybe taking your question on Philips. We have invested in similar situations in the past and we've been really impressed by Philips's transformation from an electronics device conglomerate into a world-leading health tech company.

We followed with interest the strategic plan they announced and actions that they prepare and we really believe it's a good company on this path to greatness at a sweet spot where healthcare and technology intersect, which are also fundamental industries where we believe and we think their plans for the future are very exciting.

We believe that our presence as a stable shareholder, supportive of management and believing in their plans is helpful, especially with the role that we can play in providing constructive perspectives. We think that's attractive to Philips and we believe that Philips can deliver attractive returns to us.

Joren van Aken:

Okay. Very clear, thank you.

Operator:

Thank you. And now we're going to take our next question. And the next question comes from the line of Martino De Ambroggi from Equita. Your line is open. Please ask your question.

Martino de Ambroggi:

Thank you. Good afternoon, everybody. The first question is on your satisfaction after the Phillips deal. If you are satisfied with the current weight of the healthcare business in your net asset value, and if now you are maybe focusing more on luxury and tech.

The second question, sorry, but the line was noisy and maybe you mentioned it, but what's the residual firepower in excess excluding already signed commitments?

And the third is just a confirmation: in the optimistic case your stock goes well above the cap of the buyback, and nobody tenders shares, the EUR 1 billion buyback will be executed entirely on the market by September '24?

And last question, if you could elaborate a bit more on Institut Merieux, Louboutin and Lingotto performance in the first half? Thank you.

Guido de Boer:

Martino, thanks for the questions.

On our weight of healthcare in the overall portfolio, we said that this was a focus sector and we've indeed shifted a lot of capital to healthcare. We continue to like that, so we continue to look at healthcare, luxury and technology and within those, we look at companies we believe are attractive for us to invest in. So, if we would see more opportunities in healthcare, we see no concern of increasing that exposure further. We're agnostic across the three sectors where to invest further.

In terms of residual firepower, we said there is EUR 1 billion available to invest further into companies and EUR 1 billion behind Lingotto and Ventures, which is basically allocated to that. So, where we have investment opportunities is around the EUR 1 billion in companies.

Your question if the share price would move above the cap, then it all depends on how many people would tender because the share price might be higher, but this provides an opportunity also for larger shareholders to, in one go, monetize significant amount. So we can't really say how much commitments we will get in the tender offer. But as a general statement, yes, anything that will be not taken up in the tender offer, we do it on-market purchase.

And we think it's, the more we get in the tender offer, we think it's good because it provides an immediate increase to the NAV per share but it's also a very strong vote of confidence if shareholders say, now we want to be along for the journey and we don't tender and then we do the buybacks in a more gradual process. So, in the end, we would say both outcomes show good results in that sense.

And commenting on some of the non-listed companies as far as we can. You've seen in Louboutin with a slight profit drop compared to 2022. Nothing concerning from our perspective - it's a company that has volatility in this business and they had difficult comps given the strong performance in 2022.

And in Institut Merieux, I think there is not that much to comment. That is non-public given that the main driver of its performance is driven by how bioMerieux does, which is listed on the stock exchange. So, nothing really further to comment on that from our side.

So, Martino, does that answer your questions?

Martino de Ambroggi:

Yes, thank you. Just a follow-up on the residual side of power. If I understand correctly, there is not any more room for additional buyback if EUR 1 billion is reserved for investment in the companies following the finalization of these EUR 1 billion.

Guido de Boer:

No, the EUR 1 billion will also take time because even doing EUR 250 million buyback will take the better part of the year. So, in that sense, in the year we'll have again, good inflows from dividends from companies, etcetera. And at that time, we will review the best capital allocation for the cash inflows that will have over time.

Martino de Ambroggi:

Okay. Thank you, Guido.

Operator:

Thank you. Now we're going to take our next question from the phone line. (…) And the next question comes from the line of David Vagman from ING Belgium. Your line is open. Please ask your question.

David Vagman:

Good afternoon, everyone, and thanks for taking my question. Just coming back on the remaining firepower to be sure I understood correctly. So, you have EUR 1 billion left available for companies and EUR 1 billion left for Lingotto but for Lingotto and Ventures which is already kind of allocated or committed. Is that how I should understand it?

And then, follow up on that, on the company side, could you tell us what you're looking at or envisaging is harder the same type of transaction, let's say, more likely to be listed? You indicated previously that you had a preference given valuation level for listed investments and could it still be, let's say, done in one go or let's say one, let's say, significant investment. That's my first question.

And the second, coming back on the performance of the results, let's say also, unlisted investments, the Exor Ventures, can you also comment on the profit evolution for the Exor Ventures and you commented on Louboutin.

And then last question on, how are you thinking about your Loan-to-Value ratio, given that the interest rates have increased, so are you becoming more prudent? And should we be thinking that you will more likely than not, not go to let's say 20% - I think that's your target - or, let's say, something you can do - remain below 20%, maximum of below 20% - that you will be rather be more prudent than you would have been, let's say, a year or two ago. Thank you.

<u>Guido de Boer:</u>

Okay. Thanks, David. I would say on where to invest the remaining EUR 1 billion. That remains fully in line with what we said in November, where we said we focus on healthcare, luxury and technology. So those sectors are still where we aim to invest. Obviously, if we see an attractive opportunity somewhere else we will be nimble and free to do that.

We said potentially one larger and three to five smaller acquisitions. The larger one we have done, so given amount available, this will be a smaller one and prioritizing public but not excluding private. So that still holds true. We believe that public markets still provide attractive opportunities to get a good stake in. So that is our first area to look at that we're open. So, we remain in line with what we said in November.

On Exor Ventures, they invest in early-stage venture capital, which has obviously not been the easiest place for the past year. We take a prudent approach. Last year October, we took down the valuations of our portfolio proactively. And we continue on a half-year basis to closely monitor the valuation of the companies, have they done recent runs, etcetera, to make sure that we mark-to-market our portfolio accordingly.

And on Loan-to-Value, very fair question. Basically, what we intend there is to go back to the same levels as we had before receiving the proceeds from PartnerRe. I think the financing structure that we have now of which many of the bonds are fixed for a long term at very attractive rates. So, by virtue of investing the cash that we will have, we go back to those historical rates. And, yeah, over time, we will refinance at the prevailing market rates. But for now, I think we're in a very attractive opportunity to have bonds at low rates outstanding, and, yeah, at a leverage ratio where we're very comfortable at.

David Vagman:

Thank you very much.

Operator:

Thank you.

(Q&A Instructions via conference call)

Alternatively, you can submit questions via the webcast.

Dear speaker, there are no further questions over the phone.

Guido de Boer:

Good. We have two questions that we received online. One was regarding our dividend that is immaterial in the scheme of things, particularly in light of the opportunity to repurchase shares at 40% plus discount to NAV.

What's the rationale for paying a small amount in light of the attractive allocation opportunities?

I think that's exactly the reason why we have our dividend at this base of where we've kept it stable in light with what we set out in our 2019 Investor Conference that we would do EUR 100 million of dividends. And we believe buybacks are an attractive, flexible and for many of our shareholders, tax efficient way to distribute capital rather than through dividends and it benefits also from delivering NAV per share increase given the higher discount.

So that's why we stick with our commitment on dividends that we gave in 2019. And, like today, if we see an opportunity to return capital to shareholders, we think buyback given the discount is a very good way of doing.

Second question we have received is whether we have any plans for US listing.

And to be honest, it has been hard work to move the listing from Milan to Amsterdam and we're very pleased with having the listing becoming part of the AEX index at the end of last year. So, we have no rationale to look any further.

If there is any further questions, please feel free to raise them in the app.

Operator:

Dear speaker, there are no further questions over the phone. If you'd like, you're more welcome just to do some kind of closing remarks.

Guido de Boer:

Perfect. No, thank you very much. I hope this call was useful for you to get a bit further insights, and like I said, looking forward to speaking again at the full-year results or on a one-on-one basis with all of you in the meantime.

So thank you very much and wishing you a good day. Thank you.