Investmentaktiengesellschaft für langfristige Investoren TGV

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Rüngsdorfer Str. 2 e · 53173 Bonn · Germany

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Rüngsdorfer Straße 2e
53173 Bonn
Germany

Telefon: +49/228/368840
Telefax: +49/228/365875

E-Mail: info@langfrist.de

Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Partners Fund" for the first half of 2021 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Vorstand: Jens Große-Allermann, Waldemar Lokotsch
Aufsichtsrat: Dr. Maximilian Zimmerer (Vors.), Wolfgang Fritz Driese (stv. Vors.), Alexander Pichler (stv. Vors.)
Eingetragen im Handelsregister Bonn HRB 16143
Investmentvermögen mit veränderlichem Gesellschaftskapital

Investmentaktiengesellschaft für langfristige Investoren TGV
Teilgesellschaftsvermögen Partners Fund
H1-2021: Memo of the sub-advisor – MSA Capital, Dr Mathias Saggau

Bonn, July 2021

Dear investors,

The share price of the sub-fund (TGV) Partners Fund was 234.56 euros as of June 30, 2021. The change in the value for the first half-year of 2021, including all costs, was + 22.15%. In the same period, the DAX achieved a performance of + 13.22%.

Year	TGV Partners Fund (1)	DAX (2)	Difference Δ (1-2)
2015 (9 months)	+ 1,48 %	− 10,22 %	+ 11,70 %
2016	+ 16,27 %	+ 6,87 %	+ 9,40 %
2017	+ 20,24 %	+ 12,51 %	+ 7,73 %
2018	+ 0,76 %	− 18,26 %	+ 19,02 %
2019	+ 3,67 %	+ 25,48 %	− 21,81 %
2020	+ 30,47 %	+ 3,54 %	+ 26,93 %
2021	+ 22,15 %	+ 13,22 %	+ 8,93 %

per annum	+ 14,73 %	+ 4,26 %	+ 10,47 %
absolute	+ 136,19 %	+ 29,79 %	+ 106,40 %

Even if the half-year results of the TGV Partners Fund look good at first glance, if we take a closer look, little has happened. Operationally, there were no major surprises in the companies or in terms of portfolio content, except that the average share prices rose significantly.

The companies in the TGV Partners Fund

Of the fourteen companies the TGV was invested in as of June 30, 2021, I am listing the ten largest positions in alphabetical order as usual:

- Computer Modelling Group
- DCC
- Groupe Sfpi
- Gruppo MutuiOnline
- Interactive Brokers
- Just Eat Takeaway.com
- MEDIQON Group
- Naked Wines
- TGS
- Tucows

These ten companies represent around 85% of the fund’s assets. The largest company the TGV is currently invested in has a market capitalisation of around EUR 20 billion, the smallest around EUR 10 million. The five largest positions (**Tucows, Gruppo MutuiOnline, MEDIQON Group, Naked Wines, and TGS**) have been an integral part of the TGV for years and represent more than half of the assets.

The central investment principles of the TGV Partners Fund have not changed and will not change in the future either. When recommending potential investments, I remain committed to the following criteria:

1. Does the company have a reasonable business model?
2. Does the company have a lasting competitive advantage?
3. Does the management act rationally, with integrity, and does it consider the shareholders to be partners?
4. Can we purchase the company's stocks at a reasonable price?

Changes in the top 10

The shares of **amaysim** were expected to be sold in February 2021. Unfortunately – contrary to what we had hoped – there was no other bidder for their customer base. Therefore, the position had to be sold at a significant loss in the course of the takeover by Optus.

In the spring of 2021, the **MEDIQON Group** implemented a capital increase that had already been announced last year so that the company now has a greater weight in the portfolio than before.

TGS has changed its name from "TGS-Nopec Geophysical Company" to "TGS". TGS was created in the early 1980s from a merger of TGS (Tomlison Geophysical Services) and Nopec (Norwegian Petroleum Exploration Consultants). The operational business remains unchanged.

In spring 2021, shares in **Just Eat Takeaway.com (JET)**, better known to most of the partners based in Germany as the parent company of Lieferando, were added in spring 2021.

Just Eat Takeaway.com (JET)

JET has a fascinating company history. Founded by a young Dutchman named Jitse Groen around 21 years ago as "Thuisbezorgd.nl" (roughly translated as "delivered to home"), the website conquered the Netherlands within a few years. Jitse Groen's original idea was to replace the numerous different flyers from different restaurants on the fridge or in the kitchen drawer and to combine all restaurants with their own delivery service in a region on one website. If an order is placed through the website, JET receives a commission from the restaurant, typically 10 to 15% of the shopping cart. For restaurants, this was a new and very attractive marketing channel to acquire new customers.

Similar to other marketplaces, such as eBay or immobilienscout24.de, Takeaway.com has a network effect. The more customers use the website, the more important the channel becomes for the participating restaurants. The more restaurants are available on the platform, the more customers use the app or website. Ultimately, this process usually results in one single provider who connects a large number of users and providers with one another.

In most of the developed countries of the world, there has been an evolution in these marketplaces: the *survival of the fattest*, and, in the end, the website with the most users and sometimes a second one remained. Typically, several websites with a similar offer fight for a market and users until this competition is decided. As long as the struggle for market dominance continues, it seems rational to invest all available funds to acquire customers and suppliers.

Once the battle for supremacy is finally decided, it is usually an extremely profitable business model. The same principle can be found in a similar form in other companies the TGV Partners Fund was or is invested in. For example, the comparison websites of **Gruppo MutuiOnline** or the **Admiral Group.**

Over time, Thuisbezorgd.nl was able to win the market leadership in the Netherlands and has been extremely profitable there ever since. As an ambitious and skilled entrepreneur, Jitse Groen used this profitability to take other countries in Europe by storm.

In 2010, the company was renamed "Takeaway.com" and expanded into Great Britain and France. In 2014, German **Lieferando.de** was taken over. The company went public (IPO) in 2016. Even after the IPO, Jitse Groen accelerated its very aggressive expansion course. By issuing his own shares as an acquisition currency, he took over other marketplace websites within his industry. For example, the German website **Lieferheld** (2018), British **Just Eat** (2019) and US **Grubhub** (2020/21).

The combined company processed more than 800 million orders in 2020, which had a shopping cart value of around 20 billion euros. It achieved a turnover of around 4 billion euros.

The logic behind these acquisitions was gaining market domination and ending the constant, costly battle for market share. The effect was obvious in Germany, for example. While both Lieferheld and Lieferando were unprofitable in the years before the merger due to their very high marketing expenses, the combined business became profitable shortly after the merger due to the elimination of competition.

For several years now, numerous new competitors with a slightly different business model have entered the JET market. Instead of just operating a website, these start-ups employ their own drivers, try to set up their own logistics network and use it to deliver food or goods. Restaurants without delivery options were their first customers.

Examples include **Uber Eats, DoorDash, Deliveroo, Wolt,** and the German start-up **Gorillas**. In 2020, the market loved this new type of company and made it a winner of the Corona pandemic. Through IPOs or venture capital, the companies were equipped with significant funds. They invest billions in expanding and developing their own businesses as quickly as possible. It is a fight with no holds barred.

The strong expansion of these new models during the corona pandemic 2020/21 and the announcement of the aggressive and financially well-equipped competitors to attack JET also in its own home turf sent the JET shares on a downward slide in spring 2021. How is the company supposed to be profitable in the long term when new competitors with seemingly inexhaustible advertising budgets are constantly rioting at the gates? In this context, in April 2021, WirtschaftsWoche ran the headline "*Will the delivery boom end as a billion-dollar grave?*".

And it is actually the case that today it is not possible to foresee in detail where the entire industry will develop in the individual countries. There is an obvious fear that the new providers with their own and integrated logistics will win the race in the long term, and JET will take the sausage off the bread - analogous to the development of **eBay** and **Amazon**.

In the founding years, eBay, with its marketplace model, was one of the first Internet business models that were profitable early on. Significantly faster than Amazon. In the following years, however, eBay failed to develop the business. Ultimately, eBay, which was reverently mentioned in the same breath as Amazon more than twenty years ago, was spectacularly outstripped. Today, the value and reputation of eBay is only a fraction of that of Amazon.

However, the exciting thing is the timeline: it is of note that despite the apparent failure compared to Amazon, eBay still has a spectacularly profitable business model 25 years after it was founded. Of course, the company is much smaller than the big "cousin". But it is still enough to generate billions of dollars in profit every year.

The lesson: marketplace models, the oldest business models on the Internet, are often much more durable than we might believe possible – a fact that the market might not be able to reach a consensus about with regard to JET.

The current scepticism towards the company and the uncertainty about the future is abundantly factored into the share price of JET. Suppose you look at the market position in the individual countries, the growth potential and the profitability that is already there. In that case, the rating appears strikingly low – especially compared to the other listed competitors. In my opinion, the fact that the situation or the prospects could even only begin to improve is by no means factored in.

Against this backdrop, I see JET as an extremely asymmetrical and attractive investment at the current price. Worst case, you get an (in the future) stagnating marketplace model. In the best case scenario, you get an excellent starting position for a future giant in the delivery industry. With Jitse Groen, you also have a founder and owner on your side who is extremely ambitious and far-sighted and has so far represented the interests of his shareholders fantastically.

With this in mind, I used the price plunge in spring 2021 to recommend buying Just Eat Takeaway.com shares. It is quite possible that the market will change quickly given the very dynamic competitive environment and that I have misjudged the situation. Should the general conditions change, I might also change my mind.

When is a mistake a mistake? Take two.

In the 2019 report, I wrote a few paragraphs about the difficulty of analysing mistakes and risks as an investor. It is difficult for outsiders to differentiate between the expected and then actually achieved results of an investment. Even with complete disasters such as **Wirecard** or **Enron**, some investors have made money on the way to the collapse by buying early and selling their shares in good time. In this case, no one will speak of a brilliant, prudent or sustainable investment to emulate.

At the time, I stated that it was too early to assess the investment in **amaysim** fully and that I would offer a retrospective once it was over. Since the TGV Partners Fund had to sell its shares in the course of the takeover offer by Optus in February 2021, this is the right time for a painful recap.

The TGV Partners Fund made its first investment in amaysim in 2016. The basic idea was that amaysim, with its focus on lean processes as an important sales channel for the network provider Optus, would have an excellent starting point for converting existing customer contracts into good income. This would either be done over time through significantly improved purchasing conditions or by realising the strategic value, for example, being taken over by Optus or another market participant.

In 2017 amaysim took over "Click Energy" to "*amazingly simple*" enter the energy market with a similar offer as in the mobile communications sector and to be able to offer customers a bundled product. So much for the theory.

In the years after 2017, both the Australian wireless communications market and the energy market entered a real crisis. Mobile telephony prices fell as a result of a price war, the regulatory framework for energy contracts was jumbled, and amaysim shares subsequently fell by around three-quarters of their value to their low in March 2020. These externally triggered hits were out of the company's hands.

To give the company the necessary backing and to be able to push through difficult decisions, the Investmentaktiengesellschaft für langfristige Investoren TGV has become one of the largest investors in the company over time. The Investmentaktiengesellschaft subsequently also supported, for example, the capital increase in spring 2019, which was supposed to give the company strategic room to manoeuvre against potential buyers and, above all, an upcoming and particularly important framework agreement negotiation.

All colleagues involved at Investmentaktiengesellschaft deserve a big thank you at this point. They put a lot of work and passion into the amaysim cause and represented our interests there excellently. Without the tireless work of those colleagues, with a fairly high probability, the investment would have gone much worse.

In late autumn 2020, amaysim then sold its subsidiary Click Energy and then announced the sale of the mobile communications business to Optus. The price for Click Energy was better than I expected. The price for the sale of the cellular business was, in my opinion, extraordinarily low. Optus was able to negotiate an excellent deal. In hindsight, there was no other bidder who was willing to bid for the customer base. Had there been one, it would likely have given the investment a completely different outcome.

After the investment is concluded, there is a significant loss of close to -35% over time. In relation to the total assets of the TGV Partners Fund, this was a negative impact of approximately 5% spread over several years. Since the rest of the portfolio has developed very positively since 2016, the TGV would be in a much better position today had it never invested in amaysim. The old saying goes that investment mistakes get less significant as the position gets smaller and the impact on the portfolio as a whole decreases over time.

Nonetheless, failure analysis in the case of amaysim is somewhat different from, for example, at NOW Inc. While at NOW, risks occurred when I had actually identified as such, at amaysim, I misjudged some risks, which then contributed to a bad outcome.

Based loosely on Konrad Adenauer ("*What prevents me from getting smarter*?"), I am even more sensitive to some aspects of company selection than I was a few years ago:

<u>Incentive structures</u>: Life is much easier when everyone in the boat is rowing in the same direction. This is often a feature of owner-led companies or companies with a strong shareholder register. Less often with only street name as owners. If there are disagreements about the course and too many helmsmen, the boat can't go anywhere. Worse still: if you see lifeboats set down in all directions, you usually lose out on the big boat.

Robustness: excellent companies are often very good at doing one thing exactly right. This clear profile often breeds robustness in challenging times. After buying Click Energy (different business in a different industry) and at the same time rolling out broadband internet, amaysim maybe lost it's focus and "doing one thing right". Then a real crisis hit and several fires had to be extinguished at the same time.

Australia is very far away: The time difference of eight hours makes communication and the close support of a company extremely difficult. The effort to follow a company in Australia in detail and with a regular exchange is disproportionately high, especially in times of rapid change. At the same time, some market developments, such as the price war over mobile telephony prices, can only be followed from the back seat.

None of these findings alone should stop an investment. There are excellent companies in Australia that the TGV Partners Fund could invest in in the future. But in the case of amaysim, today, I would answer the question, "*Given the facts, would I make the same decision as at the time of the original decision?"* With a high degree of certainty in a much more differentiated manner and not with a clear "*yes*" or "*no*".

Outlook

Even if the markets have rushed from one high to the next in the past few months, I would like to take this opportunity to call for prudence once again. While in January, I said that some market segments were overheating, the first half of 2021 saw downright insane conditions. Instead of tulips, it was so-called "Dogecoins" and an Internet forum called "Reddit" that were on everyone's lips.

The future is uncertain, and it is unlikely that the current euphoria in the markets will continue forever. Fluctuations and lean years are part of investing.

On the other hand, I cannot complain about a lack of ideas or too little selection of good and at the same time inexpensive investment opportunities.

In my opinion, the companies the TGV has a stake in are of well-above-average quality, have decent growth opportunities, and excellent management teams. These properties, paired with an overall attractive valuation, will lead to satisfactory results over time, even from today's point of view. Even if, in my opinion, there will certainly be rough seas to navigate.

Since I pay much more attention to avoiding risks that could jeopardise the company's continued existence than selecting spectacular profit opportunities when choosing the companies for the TGV Partners Fund, I am confident that the TGV will weather these turbulent times well.

Kindest regards from Bonn,

Mathias Saggau