

18th Value Investing Seminar in Trani (Italy) 7-8 July 2022

Anatoly Fedorov
Portfolio Manager of Signet Equity Fund (UCITS)



SIGNET

Regulatory Notice and Legal Disclaimer

The content of this material is a marketing communication and does not constitute any form of independent investment advice and/or recommendation and/or research. The material is for general information purposes only (whether or not it states any opinions). Nothing in this material is (or should be considered to be) legal, financial, investment and/or other form of advice and/or recommendation on which reliance should be placed. No opinion given in the material constitutes a recommendation by Signet Capital Management Limited (the “Company”) or the author that any particular investment, security, transaction or investment strategy is suitable for any specific person. Although the information set out in this marketing communication is obtained from sources believed to be reliable, the Company makes no guarantee as to its accuracy or completeness. All information is indicative and subject to change without notice and may be out of date at any given time. Neither the Company or the author of this material shall be responsible for any loss that you may incur, either directly or indirectly, arising from any investment based on any information contained herein. This material may include charts displaying financial instruments' past performance as well as estimates and forecasts. Any information relating to past performance of an investment does not necessarily guarantee future performance. Please seek independent advice.

ESG Statement for Responsible Investment

For sustainable investing we consider the environmental, social and governance information (ESG factors) throughout the investment process and we ensure that our sustainable product offering meets the high standards through dedicated sustainable investment principles and processes governed by our ESG Investment Policy Statement. The ESG Investment Policy applies to all portfolios where ESG considerations are embedded in the investment process or where a sustainable objective is defined.

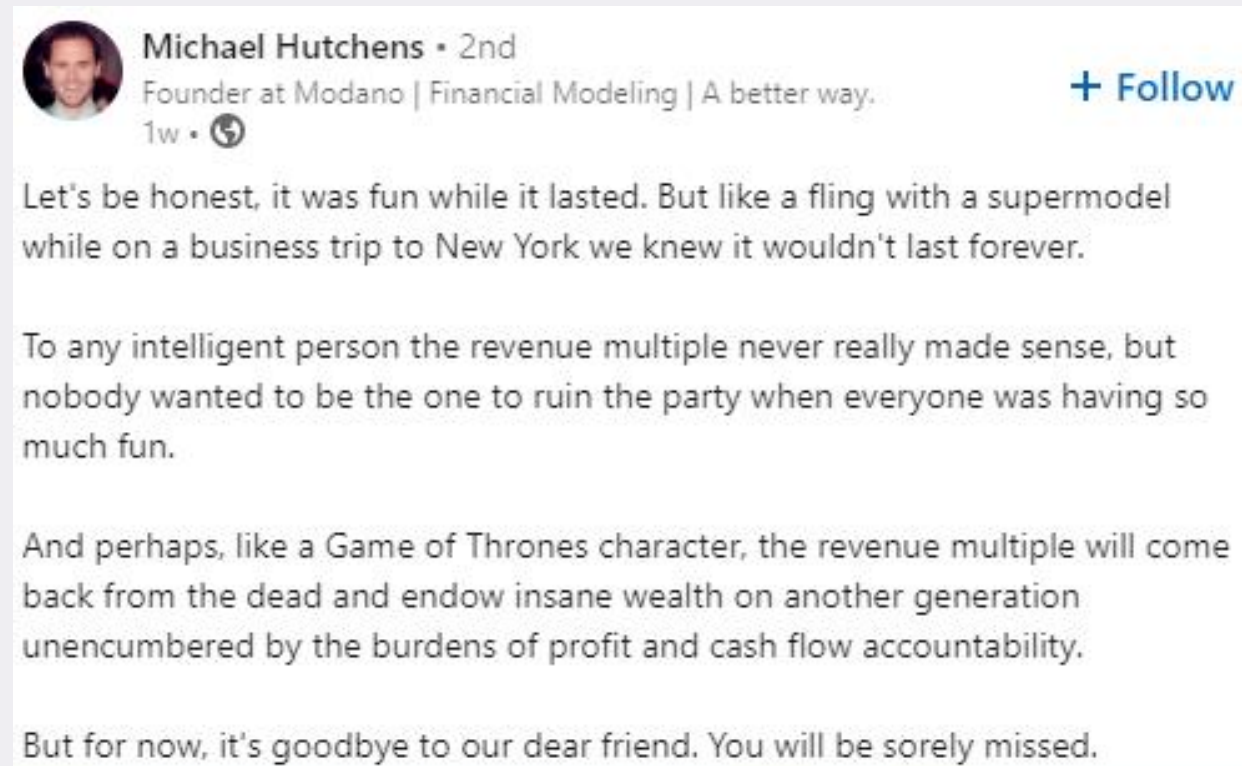
Our ESG scoring is graded each company in the portfolio on a scale of 0 to 100 relative to other firms in its global industry peer group. As a result, two companies that have the same score but belong to different peer groups may not have equivalent levels of environmental, social, and corporate governance (ESG) performance. A score of 50 means that the company is considered average relative to its peer group whereas a score of 70 or higher means that the company is rated at least two standard deviations above average in its peer group. A score of 30 or lower means that the company scores at least two standard deviations below average in its peer group.

Profitless tech benchmark: bubble burst...



Source: Bloomberg as of June 20, 2022

... and beloved valuation metric is gone



Let's talk about long-forgotten quality of earnings for large cap names...

NAME	Country	GICS INDUSTRY NAME	EV/ Revenue 23	P/E 23	10 yr median P/E	P/E dev %	EPS gr 22-24 (%)	PEG	EPS 2021 reported	EPS 2021 adjusted	EPS 2021 Adjusted / EPS 2021 reported	P/E 23 adj SBC	PEG adj SBC	SBC as % of Revenue 2019	SBC as % of Revenue 2020	SBC as % of Revenue 2021
Must own / consensus longs; do not have issues with Stock-Based Compensation adjustment																
1 MICROSOFT CORP	US	Software	8.0	23	22	6	13	1.7	8.1	8.0	1.0	23	1.7	4%	4%	4%
2 ALPHABET INC-CL A	US	Interactive Media & Services	4.6	14	24	-40	17	0.8	112.2	134.3	1.2	17	1.0	7%	7%	6%
3 AMAZON.COM INC	US	Internet & Direct Marketing Re	1.9	30	97	-69	65	0.5	64.8	89.6	1.4	42	0.6	2%	2%	3%
4 META PLATFORMS INC-CLASS A	US	Interactive Media & Services	2.8	11	34	-68	16	0.7	13.8	16.3	1.2	13	0.8	7%	8%	8%
5 INTUIT INC	US	Software	7.4	27	34	-22	19	1.4	7.6	9.8	1.3	34	1.8	6%	6%	8%
6 S&P GLOBAL INC	US	Capital Markets	9.0	21	25	-15	12	1.7	12.5	13.7	1.1	24	1.9	1%	1%	2%
7 MASTERCARD INC - A	US	IT Services	11.9	24	31	-20	19	1.3	8.8	8.4	1.0	23	1.2	1%	1%	1%
8 VISA INC-CLASS A SHARES	US	IT Services	12.9	23	30	-25	15	1.5	5.6	5.9	1.0	24	1.6	2%	2%	2%
9 ADYEN NV	NE	IT Services	17.9	42	192	-78	37	1.1	15.3	14.8	1.0	40	1.1	0%	0%	0%
Median			8.0	23	31	-25	17	1.3			1.1	24	1.2	2%	2%	3%
Average			8.5	24	54	-37	24	1.2			1.1	27	1.3	3%	3%	4%
Great business models , but issues with Stock-Based Comp																
1 NVIDIA CORP	US	Semiconductors & Semiconductor	9.8	24	28	-12	15	1.6	3.9	4.4	1.2	28	1.9	8%	8%	7%
2 SERVICENOW INC	US	Software	9.4	47	131	-64	30	1.6	1.1	5.9	5.2	248	8.2	19%	19%	19%
3 SALESFORCE INC	US	Software	4.4	28	97	-71	26	1.1	1.5	4.8	3.2	91	3.5	9%	10%	11%
4 SHOPIFY INC - CLASS A	CA	IT Services	4.5	174	1,526	-89	138	1.3	0.4	6.4	14.9	NM	NM	10%	8%	7%
5 ADOBE INC	US	Software	8.4	23	42	-46	16	1.4	10.0	11.9	1.2	27	1.7	7%	7%	7%
6 PAYPAL HOLDINGS INC	US	IT Services	2.6	15	41	-63	21	0.7	3.5	4.6	1.3	20	1.0	6%	7%	6%
Median			6.5	26	70	-63	23	1.3			2.3	28	1.9	9%	8%	7%
Average			6.0	52	318	-66	42	1.2			4.7	83	3.2	10%	10%	10%

Source: Bloomberg as of June 20, 2022; reported numbers exclude gain/losses from investments

... and for small and mid-cap companies

NAME	Country	GICS INDUSTRY NAME	MCAP	EV/ Revenue 23	P/E 23	10 yr median P/E	P/E dev %	EPS gr 22-24 (%)	PEG	EPS 2021 reported	EPS 2021 adjusted	EPS 2021 Adjusted / EPS 2021 reported	P/E 23 adj SBC	PEG adj SBC	SBC as % of Revenue 2019	SBC as % of Revenue 2020	SBC as % of Revenue 2021
US Profitable Mid and Small Caps																	
1 PAYCOM SOFTWARE INC	US	Software	15,957	9.5	38	88	-57	26	1.5	3.4	4.5	1.3	51	2.0	12%	13%	10%
2 ZOOMINFO TECHNOLOGIES INC	US	Interactive Media & Services	13,312	10.2	32	149	-78	37	0.9	0.3	0.6	2.1	68	1.9	NA	26%	12%
3 ETSY INC	US	Internet & Direct Marketing Re	9,167	3.5	17	92	-82	20	0.8	3.6	4.4	1.2	20	1.0	5%	4%	6%
4 PAYLOCITY HOLDING CORP	US	Software	8,825	8.5	51	109	-53	17	2.9	1.3	2.1	1.6	82	4.8	9%	11%	11%
5 DOXIMITY INC-CLASS A	US	Health Care Technology	6,552	9.8	40	44	-9	35	1.2	0.7	0.8	1.2	48	1.4	2%	4%	9%
6 NUVEI CORP-SUBORDINATE VTG	CA	IT Services	5,534	4.3	14	141	-90	36	0.4	0.9	1.2	1.4	20	0.6	NA	3%	7%
7 UPSTART HOLDINGS INC	US	Consumer Finance	2,976	1.9	15	304	-95	52	0.3	1.4	2.0	1.4	21	0.4	NA	5%	9%
Median			8,825	8.5	32	109	-78	35	0.9			1.4	48	1.4	7%	5%	9%
Average				6.8	30	132	-66	32	1.1			1.5	44	1.7	7%	9%	9%
Growth European Companies with Differentiate Technology																	
1 PUMASE	GE	Textiles, Apparel & Luxury Goo	10,216	1.2	19	39	-51	24	0.8	2.1	2.2	1.0	19	0.8	0%	0%	0%
2 ENTAIN PLC	GB	Hotels, Restaurants & Leisure	9,494	2.1	12	12	4	33	0.4	0.4	0.4	1.0	13	0.4	0%	0%	0%
3 EVOLUTION AB	SW	Hotels, Restaurants & Leisure	19,624	10.3	18	42	-57	21	0.9	2.7	2.8	1.0	19	0.9	0%	0%	0%
Median			10,216	2.1	18	39	-51	24	0.8			1.0	19	0.8	0%	0%	0%
Average				3.9	17	33	-39	25	0.7			1.0	17	0.7	0%	0%	0%

Source: Bloomberg as of June 20, 2022; reported numbers exclude gain/losses from investments

One Value Business to Mention – HCA Healthcare

- **HCA Healthcare** is an American for-profit operator of health care facilities that was founded in 1968. It is based in Nashville, Tennessee;
- It owns and operates **182 hospitals** and approximately **2,000 sites of care**, including surgery centers, freestanding emergency rooms, urgent care centers and physician clinics in 21 states and the United Kingdom;
- Revenue mix by subsegment: Managed Care (52%), Medicare (18%), Managed Medicare (14%), Managed Medicaid (5%), Medicaid (4%), International (2%), Other (5%);
- In US HCA operates in two geographically organized groups: National (96 hospitals in West and East Coast areas) and American (76 hospitals in South and Mid-West states);
- Key operating metrics: physicians (45,000), facilities (182), beds (48,803), occupancy rate (71%), admissions (2mn);
- HCA's workforce is comprised of 284,000 employees, including 80,000 part-time workers;
- All HCA hospitals are managed in accordance with Private Equity type of management, i.e. ROIC-based approach to investments;
- HCA's key shareholder - Hercules Holding II is a holding company, established by a private investor group, including affiliates of Dr. Thomas F. Frist, Jr. the founder of the HCA

HCA	
Last Price, \$	173.1
Price range 52 week	169 – 279
Price % change YTD	-32.6%
Shares diluted, mm	295.5
Market Cap, \$mm	50,590
Net Debt (Cash), \$mm	35,418
EV (Current, LTM), \$mm	86,008
Net Debt / EBITDA	2.69x
Dividend Yield (forward)	1.06%
Free float %	76%
Daily volume, mm	1,515.6

Key shareholders	Stake (%)
Hercules Holding II	23.32
Vanguard Group Inc/The	6.47
BlackRock Inc	5.86
T Rowe Price Group Inc	5.10
Wellington Management	4.84

Sales split by Geo	
American Group	45%
National Group	51%
Other	4%

in \$mn	2019	2020	2021	2022E	2023E	2024E	2021-24
Reporting	FACT	FACT	FACT	EST	EST	EST	EST
Revenue adj	51 336	51 533	58 752	60 659	63 948	67 699	4.8%
EBITDA adj	10 369	10 430	13 009	12 056	12 804	13 555	1.4%
Margin	20.2%	20.2%	22.1%	19.9%	20.0%	20.0%	-
Net income adj	3 654	3 990	5 751	5 195	5 566	5 978	1.3%
Margin	7.1%	7.7%	9.8%	8.6%	7,2%	7,2%	-
OCF	7 602	9 232	8 959	-	-	-	-
FCF	3 444	6 397	5 382	5 128	5 550	5 877	3.0%
Net debt	35 037	31 391	35 418	-	-	-	-
ND/EBITDA	3.50	3.10	2.69	-	-	-	-

Target price, \$		
Mizuho Securities	260.0	06-Jun-22
Credit Suisse	260.0	03-Jun-22
Bernstein	271.0	26-May-22
RBC Capital	267.0	18-May-22
BMO Capital markets	233.0	02-May-22
Goldman Sachs	270.0	02-May-22
Wolfe Research	240.0	01-May-22
JP Morgan	235.0	27-Apr-22
Target price	253.2	
Current price	173.1	

Source: Bloomberg as of June 20, 2022



HCA Healthcare: established presence in key retirement states, but still huge upside to grow

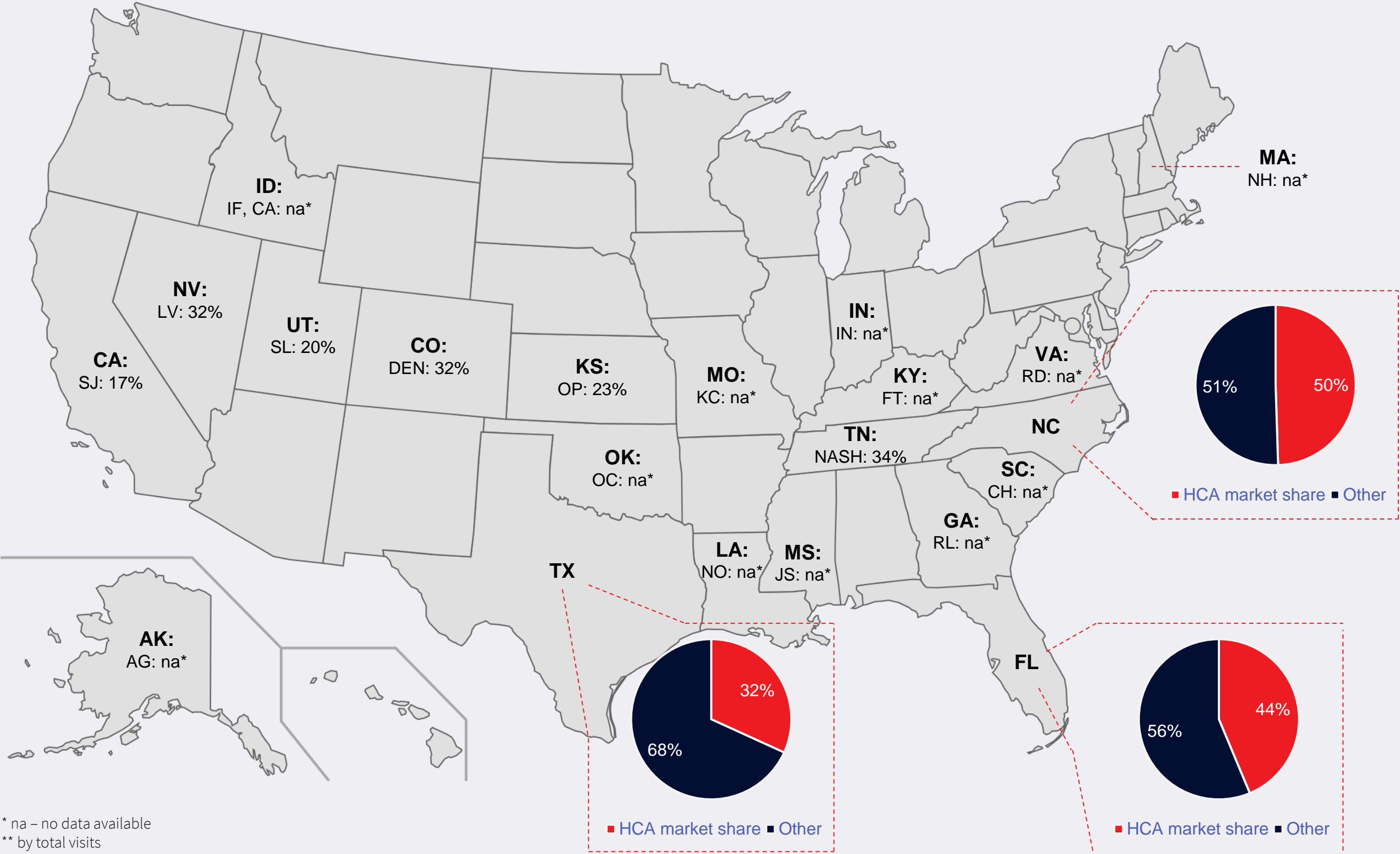
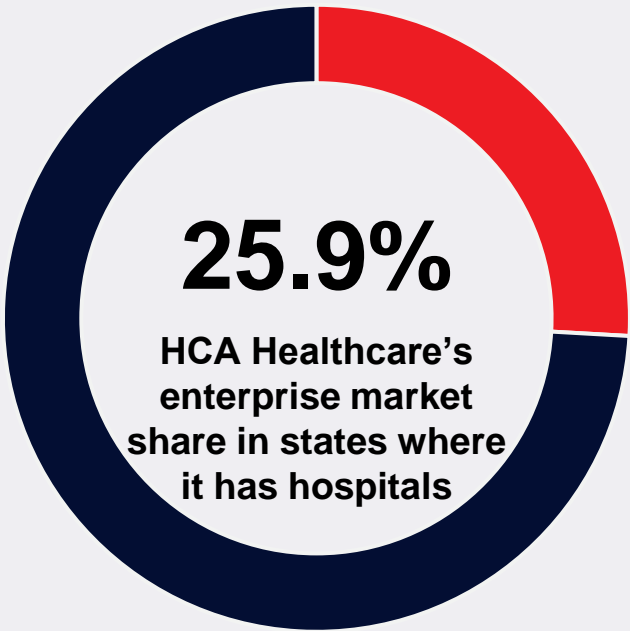


Figure 1: Consolidated market share** (US hospital systems market), FY21
Source: company reports



- HCA market share ranks 1st or 2nd in 27 of 37 studied markets;
- In Texas and Florida, two of the fastest growing retiree markets, HCA has market share of 31.8% and 43.7% respectively;
- Due to Mission Health acquisition in 2019, HCA now dominates in North Carolina, which with Georgia are most rapidly urbanizing states in South-East

HCA Healthcare: focus on operational efficiency

Table 4: Operating metrics

Source: company reports

in \$mm	2016	2017	2018	2019	2020	2021	CAGR
Reporting	FACT	FACT	FACT	FACT	FACT	FACT	FACT
Number of hospitals	170	179	179	184	185	182	1,37%
Physicians	35 500	38 000	38 000	45 000	49 000	45 000	4,86%
Outpatient surgeries '000	118	120	123	123	121	125	1,16%
Number of licensed beds	44 290	46 738	47 199	49 035	49 265	48 803	1,96%
Admissions	1 891 831	1 936 613	2 003 753	2 108 927	2 009 909	2 089 975	2,01%
Avg length of stay (days)	4.9	4.9	4.9	4.9	5.1	5.2	1,20%
Occupancy rate (beds)	58%	57%	57%	68%	66%	71%	
Inpatient surgeries '000	537	540	548	567	522	522	(0,57)%
Outpatient revenue as% of patient revenue	38%	38%	38%	39%	35%	37%	-

Figure 11: Major multiples estimates, \$mn

Source: company reports

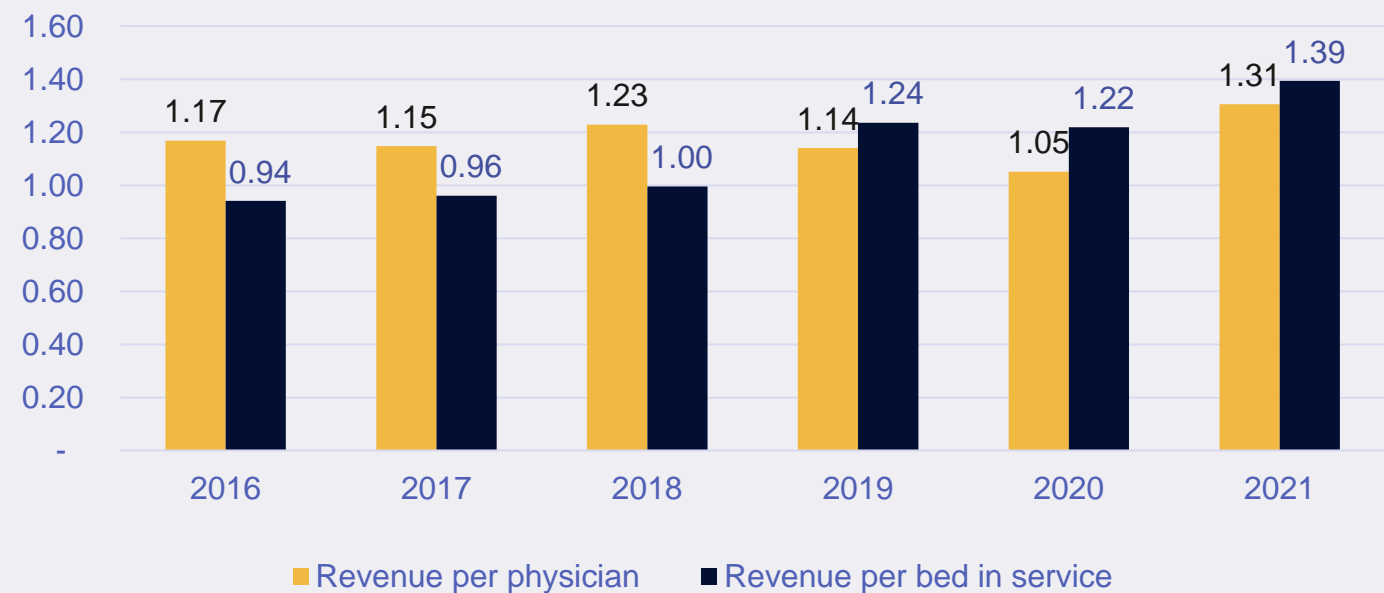
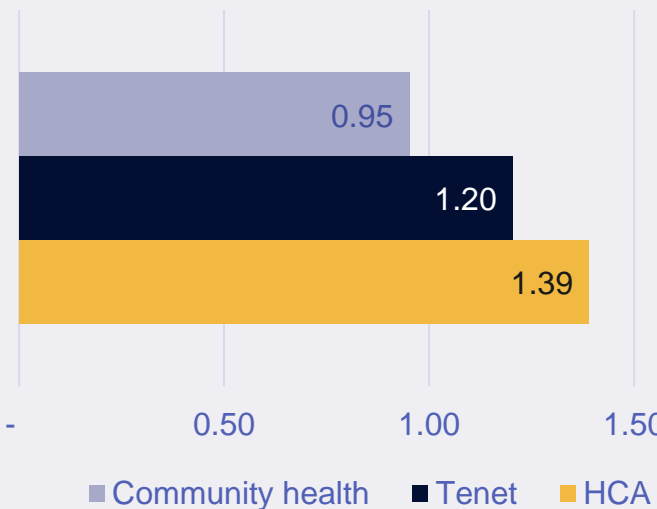


Figure 12: Revenue per licensed bed comparison, 2021

Source: company reports



- Company increased its operating metrics, demonstrated stable growth of revenue per licensed bed and per physician;
- It also increased occupancy rate, what also means increase in its operating profitability;
- Nevertheless, Outpatient revenue as % of patient revenue remains relatively low (37% vs 48% average for the US hospital systems)

Table 5: Group structure by states

Source: company reports

State	Hospitals	Beds
Alaska	1	250
California	5	1 856
Colorado	7	2 471
Florida	46	12 740
Georgia	5	1 477
Idaho	2	454
Indiana	1	278
Kansas	4	1 400
Kentucky	2	384
Louisiana	3	923
Missouri	5	1 058
Nevada	3	1 452
New Hampshire	3	418
North Carolina	7	1 181
South Carolina	3	983
Tennessee	14	2 742
Texas	45	13 517
Utah	8	1 031
Virginia	11	3 300
England	7	888

Lessons learnt from an investment mistake: payment processing company

Listen to your guts / follow your first impression

- The position was reduced by 70% after an aggressive Investor Day in February 2021 due to lack of confidence that management would be able to meet the announced user growth targets
- Bullish sentiment in 2021, improving performance in Q1 and Q2, as well as the publication of positive reports from analysts changed my perception; so, I reinstated position at discount to the sell price...

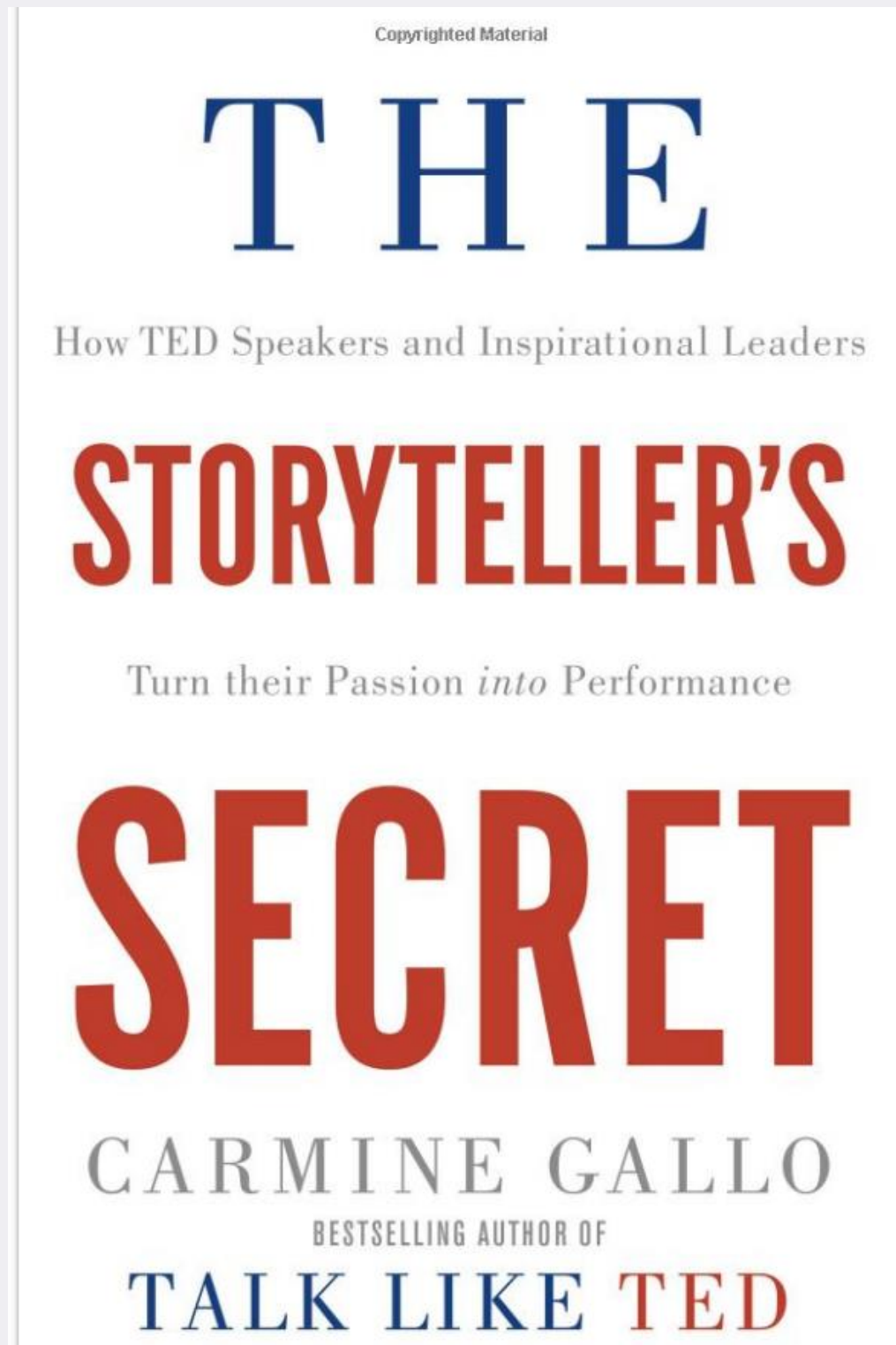
Be sceptical to management promises

- The company's management could not accurately predict the inflow of customers after the unprecedented growth that happened during the pandemic period and switched over time to profitability targeting. Investors did not appreciate focus on profitability as were considering it to be a growth name
- Checking the feasibility of the management and analyst forecasts covering the company is an integral part of the work of a portfolio manager

Risk-management nuances

- Cut earlier and in bigger size – “Let your winners run and cut your losers aggressively”
- Risk-management to be implement by an independent professional

Book recommendation



Author: Carmine Gallo – American communication coach and speaker (well known for Talk Like TED)

Structure: every chapter is a story of an outstanding person / storyteller; focus on lesson that this person teaches / his mantra

- ☞ Great storytellers tell about your background
- ☞ Impress audience with a new experience and violate expectations
- ☞ Have and share a clear sense of purpose

Reasons to read:

- ☞ Positive thinking and influence
- ☞ Fun stories to tell your kids as a hero struggled, changed mindset and eventually succeeded
- ☞ Educational / makes you a better person

Great question to think about:

“Ask yourself, what makes my heart sing? The answer is the foundation upon which all great stories are built”

Anatoly Fedorov

Corporate finance and investment management professional



2018 – Present **Signet Capital Management, London-based Asset Manager**

- ▮ Portfolio Manager of Signet Equity Fund (UCITS), growth equities Long/Short specialist
- ▮ Ex. M&A Arbitrage and Equity Long/Short Portfolio Manager in a multi-strategy hedge fund

2011 – 2018 **J.P. Morgan Investment Banking, Global Investment Bank**
Vice-President in Diversified Industrials Practise

Selected transaction experience:

- ▮ Public takeover of Tier-1 auto OEM supplier Wabco Holdings by ZF (2017)
- ▮ Philips Lighting dual-track process, IPO and follow-on offerings (2016/2017)
- ▮ Sale of a French packaging company SGD Pharma to China Jianyin Investment / JIC (2016)
- ▮ Acquisition financing for industrial companies and financial sponsors (2015-2017)
- ▮ IPO of Befesa, metals recycling company (2017)
- ▮ IPO of QIWI, Russian payment system (2013)

Q&A



SIGNET