

“Value Investing is more qualitative than quantitative”



VIS 2023 - Trani, July 6-7 2023
Ciccio Azzollini - Roberto Russo

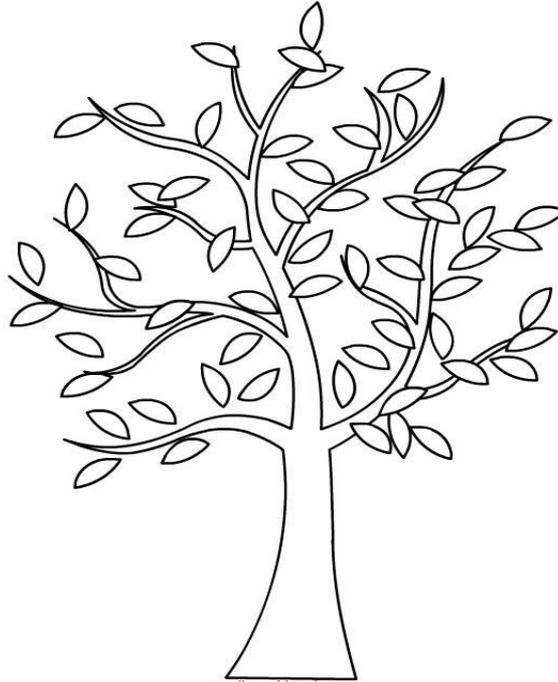
The Tree of Value

Business ownership mentality
& Circle of competence

Mr. Market

Margin of safety

Long term horizon



Rationality

Checklist:

- *Behaviour checklist*
- *Pre-investment checklist*
- *In-flight checklist*

Investments:

- *Opportunistic investments*
- *Compounding machine*

“Someone is sitting in the shade today because someone planted a tree a long time ago.”

(Warren Buffett)

Investment idea



Ermenegildo Zegna

<https://www.zegnagroup.com>

Ermenegildo Zegna's Ecosystem



<https://www.youtube.com/watch?v=up2C-bSljHs>

Pre-Investment Checklist

 Ermenegildo Zegna	
The Quality of the Business	✓
The Quality of the Competitive Advantage	✓
The Quality of the Growth	✓
The Quality of the Financial Strenght	✓
The Quality of the Management	✓
Market Price	?

Zegna Valuation by Mr. Market

	US dollars
Stock price	~12,7
Diluted shares	248,6 mln
Market capitalization	~3,15 bln
Net Debt / (-) Cash	(~120 mln)
Enterprise Value	~3,0 bln
Ebit 2022 (~10% margin)	~160 mln
Taxes @ 30%	~48,0
NOPAT 2022	~110 mln
EV/NOPAT2022	~27,0

Zegna Market's Multiple on Normalized Margin

	US dollars
Revenues	~1.500 mln
Normalized EBIT margin	~15%
Normalized EBIT	~225 mln
-	-
Taxes @ 30%	~70 mln
=	=
NOPAT 2022	~160 mln
Assumed growth rate	10,0%
NOPAT Fwd	~175 mln
EV/NOPAT 2022	~19,0
EV/NOPAT Fwd	~17,0

Zegna Compared to Average Business

	Zegna	Average Business	Zegna vs Average
ROIC	~40%	10%-12%	4x
Earnings growth	~10%	~5%	2x
P/E	~17x	15x	1,1x

Reverse Engineering: The Growth Rate on Earnings Implied on the Market Price is circa 1-2%.

Hall of Mistakes

1. Mistakes of Commission: The Value Trap

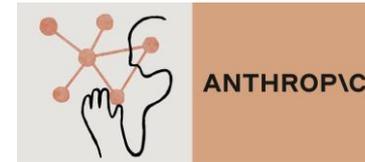
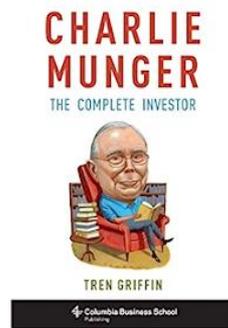
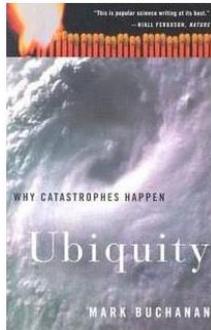
- Don't think that if something is statistically cheap it's automatically a bargain.
- Beware of poor management, especially in the commodities business and leveraged one.
- Beware of Political and Regulatory Risk of the State-owned companies.
- Beware on giving 100% of value to excess cash.
- Misjudgement of the underlying economic characteristic of the business.
- Misjudgement of the management.

2. Mistakes of Omission: Optically High Valuation Trap

- “...It is better to buy a wonderful business at a fair price than a fair business at wonderful price” - Warren Buffett.

In the Business of Investing is not important how many times you are right or wrong, but it's important how much money you make when you are right and how much money you lose when you are wrong.

Book we suggest and... the AI revolution!



Thank you!

Q&R



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