Transcript: Exor Full-Year 2023 results conference call

Speaker and Q&A Participants

- Guido de Boer, **Exor Chief Financial Officer**
- Alberto Villa, **Intermonte Analyst**
- Martino De Ambroggi, **Equita Anayst**
- Monica Bosio, **Intesa Sanpaolo Analyst**
- Stephan Simmrob, **Simmross Capital Analyst**

Presentation

Operator:

Welcome and thank you for joining Exor's Full 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 may now begin.

Guido de Boer:

Thank you, Nadia, and happy to present the 2023 results to you. Especially because it was a busy but also a very successful year for Exor.

Main Highlights

Let me start by sharing the main highlights for the full-year 2023:

- Our NAV increased from €28 billion to €35 billion. One of the strongest performances we have seen in years on the back, in particular of Ferrari and Stellantis doing extremely well.

- Our debt position increased from a cash position of €800 million to €3.9 billion net debt, delivering on the reinvestment plans that we had from the PartnerRe proceeds, in particular behind Philips, Clarivate and the Lingotto Funds.

- We also announced this morning an important change in our external reporting as we determined that Exor will be, as of 1st of January, an Investment Entity under IFRS 10 and will change prospectively our reporting. A bit later I will provide more details on what the exact impacts of that are.

- We confirm the dividend of around €100 million and we will recommence shortly the remaining part of the €1 billion buyback program that we announced in September 2023.

Continued Outperformance of NAV per Share over Benchmark

It has been a very strong year indeed, both NAV per Share up 33% as well as our Share Price, and that being almost double of the MSCI World Index. So we are obviously very pleased with this result in 2023.

But more importantly, our strategy is to have long-term holdings and to be a long-term compounder of results. So that is why we showed here also the performance both on Share Price and NAV per Share relative to the MSCI since our inception in 2009.

To illustrate also the value of compounding, if in 2009 we would have invested €100 in the MSCI World Index, that would have delivered an investor €492, a good result. But having invested that in Exor would have delivered an investor €1,620 so three times the result.

Even though the delta between the MSCI (11.2bps) over that full period and the NAV per Share of Exor (18.6bps) is only 7.3bps, our continued outperformance over a long period really drives significant outperformance for our shareholders, which is in the end our driver of existence.

Performance Overview

We always want to make sure that our cash flow generation is strong, giving us opportunities to reallocate funds where they deliver the best returns. And given the strong dividends that we receive, in particular from Stellantis and CNHI, that ratio is now 8.1 times higher.

Another key holding ratio for us is our cash holding cost, where we aim to be in the top quartile of the most efficient investment companies. We set the target around 10bps and we have been consistently well below that.

The third one that we measure closely is our Loan-to-Value Ratio. We believe in the value of having a certain level of debt to deliver increased returns, but moderately. We are probably a bit above the peers in the Investment company industry, but well below what Standard & Poor's deems applicable for our rating. This is a level where we are comfortable with going forward.

Main Performance Drivers

Moving then to the main performance drivers to break down the composition of our Gross Asset Value, both between where we have invested or monetized as you can see in the line of cash in/out and to illustrate where we have increased the value of our investment in appreciation and depreciation line.

As you see, the increase of around €7 billion in GAV has principally come from the Listed Companies. €2.8 billion coming from the reinvestment of the PartnerRe proceeds behind Philips and €7.1 billion is the performance of our Listed Companies, with complements to the strong delivery of both Ferrari and Stellantis. Ferrari was up €4.7 billion in 2023 and Stellantis €3.6 billion and they have both continued that strong performance also in 2024. CNH retreated a bit with €1.4 billion decrease in value.

Private Companies have been fairly stable and Lingotto is the other area where you have seen significant shifts. We indicated already earlier in our Exor Investor Day, our commitment to invest behind the Lingotto Funds and we did that for an amount of €600 million in 2023. As you can see the funds are starting to invest, so majority of funds are still in the ramping up phase having still cash positions, so just starting to deliver returns.

The more mature part of the portfolio has been doing very strongly, in particular the hedge funds that we have under the lead of Matteo Scolari, which delivered the bulk of the appreciation in Lingotto. So that is so far for our performance drivers and I can obviously clarify further if you have any questions later in the Q&A.

Net Financial Position

Moving to the net financial position, as I mentioned earlier, we started the year with a cash position of around €800 million. Dividends came in for €835 from CNH and Stellantis principally. We invested for a total of €4.4 billion, with Philips, Lingotto and Clarivate being the most significant ones.

We also returned significant capital to our shareholders, both as dividend at the level that we always do, but on top of that, another billion in buybacks during the year. We are very pleased with returning capital in an efficient way because we think that the discount is a good opportunity to increase our investment in our own portfolio and deliver NAV per Share growth for the shareholders who want to stay as well as to people who want extra distributions can benefit in that way.

I think the mechanism that we chose, doing that through the Tender Offer, has proven to be very efficient because what in market purchases would have taken around two years, we did in two weeks at basically no discount. The Share Price, which was at the time €84, appreciated with 20% since then. So delivering strong accretion for our Shareholders and buying back 5.8% of our total market cap.

Proactively Manage our Debt with a Well-Balanced Maturity Profile

Moving to our debt, we are very pleased that at the end of last year, Standard & Poor's recognized both the strong financial position of Exor as well as the strong business performance of our portfolio and upgraded our credit rating to A-.

At the start of the year , we took the advance of the improved rating and strong market conditions to do an early capital raise of initially €500 million, but on the back of strong demand, we upsized that to €650 million for a fixed rate of 3.75% and at very low spreads and NIP close to zero, which gives us basically cash on the bank with a positive carry so that we can refinance the bond that will mature later in the 2024.

With that, we continue to have a very well spread-out bond maturity profile with a duration of approximately six years and very low financing cost trending around 2.5%.

Change in External Reporting to Investment Entity

Moving then to the change in External Reporting that I mentioned earlier. Given that Exor has evolved significantly over the past year in terms of investment portfolio and investment approach, we deemed that as of the 1 January 2024, we fulfil all the criteria of an Investment Entity under IFRS 10, and we will prospectively change our External Reporting. What does that effectively mean?

On the accounting side, it would mean that we will deconsolidate all our portfolio companies, so the companies that we currently account for as subsidiary or associate will be accounted for at fair value and the movement will flow through the P&L on a continued basis. The only companies that will continue to consolidate are the subsidiaries that provide services to the Investment Entity. So that is principally what we define in our Annual Report as the Holdings System.

So you will see much clearer what is the operating cost of the Holding System in our financial statements, rather than that being mixed up with the cost or the balance sheet of our portfolio companies. We expect that this would lead to a one-off positive P&L gain, which is obviously non-cash, of around €12 billion, which accounts for the difference between the book value of the companies we currently consolidate and the fair market value, for which we will disclose more detailed information in the 2024 Half-Year Result.

For us, the key benefit is that our key metrics that we drive like our Gross and Net Asset Value, will be audited rather than being Alternative Performance Measures (APM) and that our financial reports will also be much more concise, clear and better aligned with how our stakeholders and principally you as well, perceive, analyse, and evaluate Exor.

In a nutshell, new reporting will increase the consistency of what we provide externally and how we internally measure our performance, take decisions on the capital allocations and the KPIs that we also use in management incentives.

So that closes the formal part of the presentation and happy to take any questions.

Q&A

<u>Operator:</u>

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

And now we are going to take our first question. And the question comes the line of Martino De Ambroggi from Equita. Your line is open. Please ask your question.

<u>Martino De Ambroggi:</u>

Good morning everybody, and thank you. My first question is on the firepower. Just if you could update considering the dividend inflows and the commitments and update compared to your Investor Day's presentation.

The second is on Lingotto, in particular, just to understand which were the drivers leading from €1.2 billion to €2.1 billion, the fair value of Lingotto separating what was the contribution in cash and what was the performance, you mentioned hedge funds, just if you may provide any additional colour on the performance of the different product lines.

Similar questions on the Venture lines. Ventures line, which grew by €140 million roughly. Just to understand if it is because you added new investments or because of the performance of some of the assets in the portfolio.

The last one is on the holding costs, which were, if I remember correctly, €46 million. If you can provide a normalized level of holding costs going forward.

Thank you.

Guido de Boer:

Perfect. Thank you, Martino. As always, good questions, which set the stage well.

In terms of firepower, basically nothing changed from the Investor update that we did in November, that we still have around €1.7 billion of cash not spent yet, but already allocated principally towards Institut Mérieux for a bit below €600 million, €350 million towards Lingotto, and €400 million approximately towards Ventures and the remaining part of the buyback. So in that sense, we have fully allocated our cash proceeds that we have coming in, and in 2024 - unless we sell something, or if we would use increased debt, which we do not intend for now, that basically is the committed firepower. Then next year we expect dividends to continue to be strong. So every year we will have around €900 million of cash inflows, and you can deduct from that the dividend and holding costs, and that provides you the amount we can, on an ongoing basis without divestments, reinvest annually. I hope that gives some clarity on firepower.

If we look at the investment part in returns, basically on Ventures, the €140 million breaks down in approximately €85 million coming from increased amounts that we invested in Ventures and the remaining for changes in the fair value of the portfolio. On the Lingotto side, I mentioned the numbers previously and the ground majority of the €300 million of fair value increase is coming from the long-only and the long short funds that are managed by Matteo Scolari.

On holding costs, in the holding costs of this year, there is a one-off special award granted to the current Chairman. If you would adjust for that, basically the 2023 net recurring general expenses are broadly in line with the previous year. So trending around that €30 million is the long-term run rate that we expect to have.

I hope that answered your questions, Martino.

Martino De Ambroggi:

Yes. Thank you, Guido.

Operator:

Thank you. Now we are going to take our next question. Just give us a moment. And the next question comes on line of Alberto Villa from Intermonte. Your line is open. Please ask your question.

Alberto Villa:

Good morning and thanks for taking my questions.

It is rather a question about the bridge of the Net Financial Position as of today, starting from the end of 2023. To understand if there were additional investments in the first months of 2024. So Clarivate and others that can move significantly the Net Financial Position.

That is it. Thank you.

Guido de Boer:

Yeah, perfect. Thanks, Alberto.

The key movements in the Net Financial Position, which are also publicly disclosed, are obviously the dividends that have come in, which you can all see, which have been even stronger than the ones we received in 2023. The other significant move, I would say, is the bond issue that we have done. And so I would say those are the key amounts. Clarivate is marginal, the stake that we bought in 2024, the key build up had been done in 2023 already.

Alberto Villa:

Thank you.

Guido de Boer:

Thank you, Alberto.

Operator:

Thank you. Now we are going to take our next question. And the next question comes from the line of Monica Bosio from Intesa Sanpaolo. Your line is open. Please ask your question.

Monica Bosio:

Good morning everyone and thanks for taking my question.

I have a follow-up on Martino's question on the firepower. So basically, Exor is keen to invest in healthcare, technology and luxury. As things are just your feeling, would you consider Exor exposure to the luxury sector as fair or maybe a bit overexposed, just your feeling about this to understand which could be the next move of the company.

Still on the luxury, you have a stake in Shang Xia. How do you see the outlook for luxury in China? And would you reconsider the strategy on that Shang Xia?

Thank you very much.

Guido de Boer:

Perfect. Thank you, Monica. Very good questions.

In terms of looking for further opportunities, we always are very diligent in making our investment selection. So that is a long process where we do not do anything rushed. So we are already now looking for where we are going to put the next significant amounts to use in 2024, but could also be in 2025. We continue to do that across our stated focus sectors: luxury, healthcare and technology and obviously remaining open for other opportunities. It can be across those industries. We indicated these industries because those are areas where we have affinity with, and we believe a strong knowledge where we can drive good returns and also to focus our efforts. But in the end, it is about the individual investment opportunity and the returns that it can give us. So whether the next investment will be in luxury or technology or healthcare or somewhere else, I would not be able to say. We continue to find luxury attractive, but it all depends on the opportunities that come in our way.

On luxury in China, we continue to believe in the fundamental thesis behind Shang Xia, which is that with the increasing wealth in China, the luxury market will continue to grow strongly, and consumers also will increasingly want to buy luxury products that originate from China rather than just from the Western world. Shang Xia provides there I think a unique proposition. But it is an investment that does take time. We are closely following how that will do and we monitor the situation closely.

Monica Bosio:

Thank you.

Guido de Boer:

Thank you very much.

Operator:

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

Martino De Ambroggi:

Thank you.

On the portfolio rotation the empirical evidence is that portfolio rotation may be beneficial for the discount to NAV. In your case, buyback was not enough, even if it was quite large in size. But the discount is always well in excess of 40%.

So my question is simply if there is anything that you could divest partially, totally, in order to crystallize same value over the next 12-months, obviously referring more to the unlisted assets rather than the listed ones. But I do not know if obviously, you cannot provide the name but just to understand if there is something that is enough mature to start some portfolio rotation among the new investments.

Guido de Boer:

Yeah, good question.

We evaluate our portfolio continuously on past performance but also on the future returns that we expect from our companies. On the basis of that, we decide whether we want to invest more in the company or maintain our position or divest. So for us, it is a continued process that we go through to assess portfolio rotation opportunities both in increasing or decreasing our stakes. Obviously, we cannot say anything upfront, so if there is a transaction, we will announce that to the market immediately if material.

So that is more from a conceptual perspective. We look at what is best to drive NAV per Share growth either to home investment or to find a new opportunity that delivers better returns. Apologies for giving you a bit more generic answer, but cannot go into any specific opportunities.

Martino De Ambroggi:

Yeah, I clearly understand. So the discount in excess of 40% apart from managing the Net Asset Value upwards, buyback is the only action you are foreseeing.

Guido de Boer:

Yes, and for us also good communication to shareholders is critical. That I also think the change in Investment Entity will give more clear insight in our financial performance. Hence, I think all these things should help towards that. In the end, it is also the market that needs to decide and has significant upside, I would say in the extra Share Price with this discount if it would return to more historical levels.

Martino de Ambroggi:

Okay. Thank you.

Operator:

Thank you. Just give us a moment. Now we are going to take our next question. And the next question comes line of Alberto Villa from Intermonte. Your line is open. Please ask your question.

Alberto Villa:

Hi, I take the advantage for a follow-up.

Coming to the change in the accounting becoming an Investment Entity surely will help us having reporting that is more useful. I was wondering if there is any change towards the way you update the fair value of non-listed assets or anything that would change compared to what you are doing now when you presented the NAV or if it is just something that will be reflected more fairly into the balance sheet but does not change anything from what you are already reporting today.

Guido de Boer:

Good question.

We find it always also in the past extremely important that we present a fair value. So also rather than only doing these kind of assessments internally of what is the fair value of our assets we use for all our material non-public investments an external party that performs the valuation.

In that sense, I would not expect any significant changes in the methodology on how we value those companies. It does provide an extra layer of comfort that the auditors will also review the Gross Asset Value and Net Asset Value going forwards.

Alberto Villa:

Okay. Thank you.

Operator:

Thank you. Now we are going to take our next question. And the next question comes from line of Stephan Simmrob from Simmross Capital. Your line is open. Please ask your question.

Stephan Simmrob:

Yes, thank you very much for the opportunity to ask a question. My question is regarding Ferrari.

We saw impressive company development, especially in the last ten, eight years. So the Share Price is, I think, tenfold. And, of course, the earnings increased a lot, and now it is by far your biggest holding. But of course, we also saw that the multiples on Ferrari have I think doubled to around a PE ratio of 50, where it was 25 I think at the start of the listing.

So in the future, would it be possible if this multiple expansion even increases also that maybe you would distribute shares of Ferrari to Exor owners or is the holding unrelated to the valuation of the company in the market? Of course, I am a great admirer as everyone of Ferrari, but of course the valuation is not as cheap as it used to be. Thanks.

Guido de Boer:

Yeah, good point.

And on doing anything with the company, the same holds true more for a general statement that we have a Portfolio Review Process where we look to each investment and whether to add shareholdings, maintain or sell. So that is true for any of our companies. And we must say that Ferrari - we do not get the mistake nowadays anymore that Ferrari is seen as a car company. But everybody recognizes it now for the luxury company that it is and with that in the premium segment of luxury, and I think the multiples now start reflecting that. And you have seen not only the multiples expand, but also the earnings to show continued strength. We believe that the unique business dynamics of the company position Ferrari very well. So, like you, we are obviously very pleased with how the company is doing.

Operator:

Excuse me, Stephan, any further questions?

Stephan Simmrob:

No, thanks. So, thank you very much.

Operator:

Thank you. There are no further questions for today. I would now like to hand the conference over to your speaker, Guido De Boer, for any closing remarks.

Guido de Boer:

So perfect. Thanks, Nadia. Thanks for hosting the call and thanks for everybody who has joined for your time and your good questions. Look forward to join you again at the Half-Year Results, where we will go more into our financial statements as per the Investment Entity which hopefully will make your life easier and provide you more insightful financial statements. Thanks for your time and wishing you all a good day. Thank you.

Operator:

Thank you, ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now all disconnect.