



»Success or failure will depend on your own ability to ignore the worries of the world long enough to allow your investments to succeed. It isn't the head, but the stomach that determines the fate of the stock picker.« Peter Lynch

Robert Vinall – RV Capital GmbH

Robert Vinall prefers enduring investments in excellent businesses run by competent and honest managers and protected by high entrance barriers.

When Robert Vinall, founder and Managing Director of RV Capital GmbH, makes an investment decision, this mostly is a decision for ever. As his investment idol Warren Buffett, he



prefers enduring investments in excellent businesses. For his investment decision three criteria are essential: an excellent business protected by high entry barriers, management integrity and an attractive valuation. Since September 2008, Robert Vinall manages the „Business Owner Fund“, a classical value fund launched by Investmentaktiengesellschaft für langfristige Investoren. In the interview he presents the fund, his strategy and the German companies Grenkeleasing and Maschinenfabrik Berthold Hermle. ...p. 2-9

*Robert Vinall
Founder and Managing Director
RV Capital GmbH*

FIVV AG - The Undogmatic

It is the composition that counts. The FIVV funds successfully combine value and macro approach and highly outperform their benchmarks.

It is the composition that counts. FIVV successfully combines value and macro approach. Apart from its flagship FIVV-Aktien-Global-Select-UI, which, also in the critical year of 2008, clearly outperformed all reference indices with a moderate minus of 13.09 percent, FIVV has launched two innovative asset management funds in June 2008.

EVI talked to CEO Andreas Grünewald and the fund managers Alexander Kapfer and Christian Hofmann about their strategy and their current investments ideas Roche and Mengniu. ...p. 10-11



*Andreas Grünewald
CEO
FIVV AG*

INHALT

THE CHEST

Robert Vinall

He prefers enduring investments in excellent businesses. In the interview he presents the German companies Grenkeleasing and Maschinenfabrik Berthold Hermle. p. 2-9

FIVV AG

FIVV combines value and macro approach. EVI talked to A. Grünewald (CEO), and the fund managers A. Kapfer and C. Hofmann about their strategy and their current investment ideas Roche and Mengniu. p. 10-17

VALUE-KNOWLEDGE

Research

New chair at SMI Steinbeis University in Berlin examines the importance of financial psychology for value investing. S. 18-19

iOn the Contrary! – Dr. Magne Ormland

Dr. Magne Ormland, Managing Partner of the Swiss private bank Wegelin & Co, is pioneer of the Active Indexing® strategy, which Wegelin & Co. successfully applies since 2001. p. 20-25

Book Review

Glen Arnold – „Valuegrowth Investing“ p. 26-27

Practitioner's Pick

Graham Shaw sees investment opportunities in the Finnish company KONE. p. 20-25

VALUE INSIDER

News p. 32

Editorial p. 35

Imprint S. 36

Stocks in this edition:

AIG, BASF, Bear Stearns, Berthold Hermle, BMW, BNP Paribas, British Telecom, Brothers, China Milk Products, Daimler, Deutsche Telekom, Dynasty Wine, Fannie Mae, Freddie Mac, Genentech, Grenkeleasing, Guildemeister, Hitachi, Johnson & Johnson, K+S, KONE, Konecranes, Lehman, Logwin, MBIA, Mengniu, Mitsubishi, Nortel, Pfizer, Roche, Schindler, Stada, ThyssenKrupp, VW, Washington Mutual

Robert Vinall – RV Capital GmbH

When Robert Vinall, Founder and Managing Director of RV Capital GmbH, makes an investment decision, this mostly is a decision for ever. With his investment strategy following Warren Buffett's principles he prefers enduring investments in excellent businesses run by competent and honest managers and protected by high entry barriers. Since September 2008 Robert Vinall manages the "Business Owner Fund", a value fund launched by Investmentaktiengesellschaft für langfristige Investoren which can invest worldwide and in all asset classes. On the German stock market Robert Vinall even has found two companies that meet his investment principles: Grenkeleasing and Maschinenfabrik Berthold Hermle.



*Robert Vinall
Managing Director
RV Capital GmbH*

Robert Vinall prefers enduring investments in excellent businesses run by competent and honest managers and protected by high entry barriers.

Robert Vinall prefers enduring investments in excellent businesses run by honourable and competent managers and protected by high entry barriers. Robert Vinall was born in 1973 in Brighton, UK. He studied French and German Literature and Philosophy at Cambridge University, where he graduated with distinction in 1996. The qualification CFA he passed in 2000.

His interest in the stock market and investing began in the 1980s, when the British government started to privatize a large number of businesses that had belonged to the state. His first investment was British Telecom (GB0030913477). 2001 he became fascinated by value investing by reading Larry Cunningham's "Essays of Warren Buffett". His conviction of that investment philosophy led him to the foundation of his own company, RV Capital GmbH, five years later. In 2008, Christian Deckart, equity analyst and expert for German Small Caps joined the team.

Robert Vinall invests in companies which have honest and competent managers, are protected by entry barriers and have an attractive valuation. Like his idol Warren Buffett, he prefers enduring investments. His professional career in the financial sector he started as trainee at Goldman Sachs in London, 1997. One year later he moved to DG Bank (today's DZ Bank) in Frankfurt, where he became equity analyst of telecom companies. Later, he worked at CDL Investors where he advised clients on active investments in the German stock market.

Since its launch in September 2008 Robert Vinall advises the "Business Owner Fund", a value fund which is managed according to the principles of Warren Buffett. The fund can invest worldwide and in all asset classes. With his wife and two children, Robert Vinall lives in Kilchberg, close by to Zurich. In his free time he likes to read and play sports. His favourite sports are soccer and skiing. ■

EVI: Mr. Vinall, how did you become a value investor?

Vinall: I have been interested in investing since a very young age. My initial interest came from my grandfather, who invested extensively in stocks at a time when most English people put all their savings into property. One of my earliest memories is of asking to be taken up to London to see the London Stock Exchange, when I was a young boy. Although my instincts were always value based, I would only classify myself as a value investor from 2001 when I read Larry Cunningham's "Essays of Warren Buffett". It enabled me to make sense of all my investing experiences up to that point in time.

EVI: In 2006 you founded your own company, RV Capital GmbH, as you said, to be free to realize your own investment style and to invest according to value investing principles.

Vinall: Yes. It has been an ambition of mine to run a fund and, health permitting, build a long and successful track record. In order to realize this ambition, it was necessary to set up my own company. I did not feel that I would be sufficiently free of institutional pressures at a large money manager to realise my long term goals.

EVI: Which „type“ of value investor are you? More Graham or Buffett?

Vinall: I am very much a disciple of Warren Buffet - I look to buy great businesses at attractive prices which are run by managers with talent and integrity. I am not a big fan of the Graham approach if by that you mean buying companies at a low book multiple or other valuation measure. I think you ignore business quality and

management integrity to your peril when allocating capital. Graham's legacy to investing was his impressive analogy of Mr. Market, his observation that a stocks are part of a business, and of course his principle of Margin of Safety.

EVI: Has your own investment style been influenced by any investor or any other person? Did you have a mentor?

Vinall: I am, of course, greatly influenced by the two people you mentioned in your previous question. I have also had the great fortune to work alongside some wonderful investors, who have all contributed to my own particular brand of investing. From Peter Wick of CDL Investors, I learnt about the principal agent problem; from Norman Rentrop and Jens Grosse-Allermann of the Investmentaktiengesellschaft für langfristige Investoren, I learnt to pay very close attention to the character of the managers I am investing in. From Luke Wiseman of Steel Partners, I learnt the importance of discipline when allocating capital.

EVI: What is fascinating you with value investing?

Vinall: What I love about value investing is the endless potential it offers to learn and improve your own investment style. Almost every book that I pick up or company that I look at subtly changes the way I allocate capital. I don't think it would ever be possible to become bored with value investing.

EVI: Since September 2008 you manage the „Business Owner Fund“, which is part of the assets of the partnership of Investmentaktiengesellschaft für langfristige Investoren founded by Norman Rentrop. What kind of fund is it?

Vinall: The Business Owner Fund is a value fund which is managed according to the value principles of Warren

Buffett. The fund invests in companies which are protected by high entry barriers, are run by managers with talent and integrity and are available at an attractive price. We can invest worldwide and in any asset class.

We eschew leverage in all of its forms; however it is regulated as a hedge fund. This structure was necessary as the concentration in the fund tends to be very high. I also would love to run a more diversified fund but I find it very tough to find more than a handful of companies that meet my criteria. The name "Business Owner" reflects that we see ourselves as part owners of the businesses we invest in.

EVI: Are you also invested in that fund?

Vinall: Yes, of course. Almost all of my free capital is invested in the fund.

EVI: You said, the concentration in the Business Owner tends to be very high. How many stock titles do you currently have in the fund?

Vinall: The fund tends to be highly concentrated with around 10 securities. Our largest position, Grenkeleasing (ISIN: DE0005865901), which I discuss later, accounts for over 30% of the portfolio.

»I choose to be highly concentrated as excellent investment ideas are rare.«

to magnify both the good decisions and the poor ones and thus forces a greater degree of investing discipline. A high level of concentration flies in the face of conventional wisdom which hails the benefits of diversification (typically >50 companies).

»What I love about value investing is the endless potential it offers to learn and improve your own investment style.«

I think there is plenty to be said for diversification if you are seeking a market-like return. However, it is the enemy of the stock picker as it is almost impossible to beat the market with a diversified portfolio.

I do not think that a concentrated portfolio is more risky than a diversified one, and, if done properly, can be less risky.

It is much easier to thoroughly research and monitor 10 companies. Ask any Kindergarten teacher whether she would rather take care of 10 kids or 50 kids!

EVI: When did your interest in equity markets begin?

Vinall: My interest in equity markets began in the 1980s when the British government began to privatise a large number of businesses that had belonged to the state. It was a very exciting time.

EVI: Was it at that time you started your own investments? What was your first investment and what have been your experiences?

Vinall: I invested in most of the major privatisations starting with British Telecom (ISIN: BG0030913577) in 1984. I am sure my primary motivation was the prospect of fast buck.

My instincts were spot on as many years later I read one of Peter Lynch's books in which he wrote that if a government is selling assets, you should "back up the truck" as governments tend not to want to overprice an issue and upset their electorate. German investors in Deutsche Telekom (ISIN: DE0005557508) may beg to differ...

EVI: Later, as equity analyst, you even have been specialized on the telecom sector. Today, from your point of view as value investor, is this industry still interesting for you?

Vinall: In principle yes, as the sector has a number of very appealing characteristics. It is easy to value as many telecoms services are sold on a subscription basis which means recurring revenue is very high. Cyclicalities are low as spending on telecoms is mostly non-discretionary. Market entry barriers are very high, in particular in mobile telephone (where the number of licences are limited) and over the last mile (which is a natural monopoly).

My biggest problem is identifying a company that is suitable for investment. Most of the European telecoms lack strong and rational ownership. This has repeatedly led to catastrophic capital allocation mistakes and generally inefficient management. I can think of plenty of telecoms that have a cheap valuation and a wide moat, but none that I would trust my capital with.

EVI: You have studied languages and German Philosophy. Where did your decision for the financial sector come from?

Vinall: In England, university degrees tend not to be vocational as is the case in Germany. I studied French and German philosophy and literature as it interested me and it provided me with a strong intellectual foundation. Having finished my degree, I then set off for the City of London like most of my compatriots.

EVI: And there you became a fund manager?

Vinall: I went to work as a trainee at the then fledgling asset management arm of Goldman Sachs. As life at an American Investment Bank was not for me one year later I moved to Frankfurt where I became a Telecoms analyst at the then DG Bank (today DZ Bank).

It was an exciting time to be in Telecoms as the "New Market" was just

starting to gather a head of steam and DG Bank was right at the centre of this development. I was responsible for a small team that covered the telecommunications services and equipment companies. Amongst other things, I accompanied the second and third capital issues of Deutsche Telekom as an analyst.

EVI: In which situations do you invest?

Vinall: I am not a special situations investor. My sole focus is on finding companies that meet my three investing criteria – management, moat and valuation. Having said this, these types of companies tend not to be cheap very often and when they are it tends to be because of some type of short term issue. I am particularly interested in buying companies when their long term prospects are intact but they are cheap because they face short term issues.

I learnt from Pat Dorsey, Director of Equity Research at Morningstar, that this strategy is known as "time horizon arbitrage". As a fund manager you only can apply this strategy if you have long term capital. In this respect, I believe we have a structural advantage in the Business Owner Fund as our investors have a long-term time horizon and are very loyal.

EVI: Are there industries or regions which currently offer particular investment opportunities to value investors?

Vinall: A lot of investors like to define their circle of competence as a particular geographic region or sector. This is not my way. When I look at a company, I ask myself whether I can state with near certainty that the business will exist and be flourishing in ten years time or longer. If I can, I am happy to consider it as a potential in-

vestment irrespective of where it is based or what industry it is in. I am looking worldwide across all asset classes to find the proverbial needle in a haystack.

A good place to start your search for investment opportunities could be sectors that are most out of favour, as past has showed us. No doubt, given the financial crisis, these currently are financials and industrials. But be careful! Not every cheap company is a good company. It is the challenge for a value investor to pick out companies with great businesses that will survive the crisis.

EVI: If you look worldwide across all asset classes for value opportunities isn't there any risk of being lost?

Vinall: I think there would be a danger of spreading myself too thinly if it was not the case that I have a very concentrated portfolio. I tend to only make two or three new investments p.a. and so I can afford to do a lot of detailed research before making a new investment. Whether this investment is an equity or a bond, in Germany or in the US is not important to me.

My main concern is to keep opportunity costs to a minimum and I think I do this best if I am familiar with the different valuations across countries and asset classes. If you had asked me this question ten years ago

when I was a telecoms analyst I would have probably replied that sector specialisation was essential, but I have changed my mind completely on this point.

Looking back to this time, I am now aware that for all my detailed knowledge of the telecoms sector, I did not fully appreciate its most salient feature: it is non-cyclical. The reason is simple; I had never looked at a genuinely cyclical sector in order to be able to tell the difference. In my view, there is a far greater danger to overspecialisation than overgeneralization.

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»When I look at a company, I ask myself whether I can state with near certainty that the business will exist and flourish in ten years time or longer.«

EVI: Are you more a cyclical or an anti-cyclical investor?

Vinall: I am very much a contrarian investor. I owe this to my education in England where differences of opinion are celebrated and there is a strong tradition of debate.

EVI: Companies run by its owners are of your special interest?

Vinall: Exactly. I invest almost exclusively in companies with active and engaged owners. Very occasionally, you find managers who think and act like owners even if no owner is present but this is the exception rather than the rule.

If a restaurant has an absentee owner, over time the service quality will slip and the waiters will have their hand in the till. With large companies, it is no different. For this reason, a central tenet of our research process is understanding the owner – how he or she thinks and whether his/her interests are aligned with ours.

EVI: So management quality and integrity is very important for you.

Vinall: Yes, indeed. I increasingly think that of the three criteria I apply to investment decisions, management quality is the single most important one. I would never knowingly invest in a company where I thought the management lacked integrity. It is unpleasant to deal with people you do not trust and it is also not particularly profitable in my experience.

EVI: Do you also talk to management?

Vinall: Yes. In my opinion speaking with managers is very helpful to build an understanding of a company's business model. To judge a manager's integrity though, I think, it is more useful to speak with former employees and business partners.

EVI: What is your view on shareholder activism?

Vinall: I am a strong believer that companies require engaged and rational shareholders in order to develop to their full potential. There are certain functions that only an owner can properly carry out at a company. These include setting management compensation and the allocation of excess funds. Companies that are "under-owned" are the worse for it.

If you agree with this assertion – and it is difficult not to – there are two different paths you can take with your investment style. You can provide active ownership to the companies you invest in yourself (an activist approach), or you can invest in companies where responsible ownership is already in place (a pacifist approach). I strongly recommend against taking a pacifist approach to under-owned companies or an activist approach to controlled companies.

EVI: Are you sometimes an activist?

Vinall: Despite having some experience of activist investing, my decision is to follow a pacifist approach in RV Capital. There are a number of excellent companies trading at cheap valuations because they have a large shareholder, which is often a family. Reasons given by brokers are that the

free float is too tight or the prospect of a "catalyst" such as a change of control is too remote. Frankly, I think this is nuts, but if Mr. Market serves up great companies at cheap valuations because they have

responsible owners, it is fine by me. I would however make one qualification: a large family shareholder is no automatic guarantee of responsible ownership – there are plenty of companies that have been torn apart by families due to sibling rivalry or intergenerational conflict to name but

two reasons – so like all aspects of a business, the ownership structure needs proper analysis.

EVI: Do macro trends influence your investment decision?

Vinall: I do not try to second guess what the next big macro trends are going to be – there are simply too many factors to take into account. I do, however, expect the economy to occasionally come under extreme stress – without knowing when

that will be. I want the companies I invest in to be set up in such a way to survive such a scenario. An important step in this direction is that they are well capitalized and they have stable competitive advantages such as cost leadership.

If you were to build a house in an earthquake zone, you certainly would invest money in someone who could build you a solid house, not someone who claims to predict when the earthquake is going to hit. I see myself as the builder not the clairvoyant.

EVI: Which valuation methods do you use?

Vinall: When I value a company, I picture to myself that I own 100% of the company and that it has been in my family for many generations. In other words, I try to act like a business owner.

To a business owner, there are two main components which determine the business' worth: the amount by which the business' earnings power increases per year and the amount of cash that can be withdrawn from the business each year. These two figures are equivalent to the growth ratio and the dividend yield of a publicly listed business. The sum of the two gives the owner return. My hurdle rate is a 15% owner return.

EVI: What do you think about DCF methods?

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Vinall: In my opinion, DCF is the soundest approach to valuation in theory - but unfortunately its application is fiendishly difficult in practice as you do not know the inputs. For some companies with a high level of recurring income, DCF seems to be well suited; for others less so.

EVI: Do you use any screening models?

Vinall: I used to spend a lot of time screening the market according to typical value criteria such as price to book or P/E, but I now do this a lot less often. I find that these types of screen naturally direct you to cheap stocks, whereas what I am looking for are value stocks. The two things are not the same. My brand of value investing is not just about identifying a cheap price but a great business model and a competent management.

In my experience, it is relatively easy to identify a great business and a competent management, but very difficult to value most companies. It is thus stupid to narrow the search down in the first instance according to the least certain factor. The only type of screen I am still fond of is the price change screen. I love to look up which companies lost the most over the last day/month/year. This is the equivalent to me of the Aldi flyer to the housewife.

EVI: If you don't use screening models, how do you become aware of a business as potential investment opportunity?

Vinall: Investment ideas come in lots of different ways. I follow very closely what other value investors are doing. The website gurufocus.com is excellent for that. I also closely monitor where company insiders are buying.

What I also like to do is read through stock guides and simply trying to identify companies that I think I understand and possess a wide moat. I then invest

time in understanding them later on. I much prefer to make the first cut according to whether a company has a wide moat as the time is unlikely to be wasted. Even if it is not cheap

now it may become cheaper in the future. If I start doing work on a company on the basis that it has a low multiple and it turns out to have an awful business model, then the time is likely to have been wasted.

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EVI: Which sources of information do you use?

Vinall: My favourite source of information is the annual report. A good annual report tells you almost all you need to know about a company and its business model. If you read the annual report carefully and still have a bunch of questions, it is not a very good sign. I am also a very big fan of CapitallQ – it is very expensive, but worth every penny.

EVI: When do you usually buy and sell stocks?

Vinall: I buy when all my three investment criteria have been met and I tend only to sell if I feel I have made a mistake in my initial analysis. At the time of buying a business, I mostly intend never to sell it.

A lot of people would disagree with this approach as involves forgoing trading profits if a business becomes overvalued. However, the advantage of this approach is that you are much more careful about buying in the first instance if you do not have the escape route of selling. On balance, I think the advantages outweigh the disadvantages.

EVI: Does margin of safety play an important role in your investment decision process? How high is the margin of safety you work with?

Vinall: Margin of safety is enormously important to me. I cannot say how high it normally is as I tend not to know with precision what the value of the companies is that I invest in. However, I would hope it is at least 50%.

EVI: Do your private investments differ from those you take for your clients?

Vinall: As I already said, almost all my free capital is invested in the Business Owner Fund. There is no difference between my private investments and investments I take for my clients.

EVI: Two companies you are invested in, you will present. Let's first talk about Grenkeleasing (ISIN: DE0005865901). How did you become aware of that company?

Vinall: I was lucky to meet Mr. Grenke in Zurich, some years ago. Mr. Grenke was kind enough to explain his business to me with great patience and detail. I knew immediately that I wanted to be a part owner in his business, but unfortunately the price was very rich at that time. When the financial crisis hit, my first instinct was to look up Grenkeleasing.

When the market marked the stock down as "just another bank" I loaded up. I am doubly indebted to that conversation with Mr. Grenke in Zurich: First, I now own one

of the best businesses in Germany. And second, it never occurred to me to buy any of the other banks and insurance companies on which many other investors burned themselves last years as I knew

an infinitely superior business like Grenkeleasing.

EVI: What is fascination you with Grenkeleasing?

Vinall: Grenkeleasing is run by an owner with a high level of talent and integrity. The company's business

»At the time of buying a business, I mostly intend never to sell it.«

model is very strong and the valuation is very cheap.

EVI: Are there any franchises? What is Grenkeleasing's competitive situation? Are there any franchises?

Vinall: The word "franchise" is overused in describing business models. However, in the case of Grenkeleasing it is absolutely appropriate – Grenkeleasing actually operates in many new markets through franchisees. When the business reaches a certain size, Grenkeleasing then buys the franchisee out. The company is protected by multiple entry barriers. The two most important ones are a low cost process and a proprietary database.

The competitive situation differs by country. In Germany, Grenkeleasing's largest market, the competitive landscape is dominated by the subsidiaries of State banks and building societies. VR Leasing and LBBW are probably the most important players.

Elsewhere the private sector tends to play a larger role. Competitors here include GE Capital and BNP Paribas (ISIN: FR0000131104). Many IT manufacturers also have their own leasing subsidiaries. The current situation is very favourable from Grenkeleasing's perspective. Virtually all its competitors are retrenching and some have exited the market entirely.

Grenkeleasing can more or less dictate its own growth rate at the moment. With most companies struggling to maintain earnings at prior year levels, this puts Grenke in an almost unique position in Europe at the moment.

EVI: That sounds great. What are then, in your opinion, reasons for the currently undervaluation of the company? Is only the financial crisis responsible for that or are there other reasons?

Vinall: Of course, Grenkeleasing is a financial company, which is dependent on the capital markets for its financing. Companies with these characteristics are not at the top of

most fund managers' shopping lists at the moment. But, what the market is missing, is that this financial crisis will end at some point and great financial businesses such as Grenkeleasing will be more profitable than ever as weaker competitors fall by the wayside.

EVI: Are there any other aspects the market does ignore?

Vinall: The markets are understandably concerned about Grenkeleasing's dependency on the capital markets. However, what they are missing is that the margins are so high that Grenkeleasing could maintain a similar level of earnings today with a 100%

equity ratio, i.e. without any debt, simply by concentrating on its most profitable business. Thus, even if the capital markets were to shut down completely, it would not be a complete disaster for Grenkeleasing. Its leasing portfolio has a very short duration of around 20 months and it can comfortably pay down maturing debt out of the cash flow from its leasing book.

EVI: You have mentioned Grenkeleasing's high margins. Concerning its growth in Operating Earnings there has been stagnation.

Vinall: Grenkeleasing has been able to grow revenues and gross profit at

GRENKELEASING

ISIN : DE0005865901

Business:

Small-Ticket – IT Leasing in Europe.

Stock Information (02/24/2009):

Price: € 20.39
 52 Week Range: € 28.20 - € 17.40
 Dividend Yield: 2.85% (2009e)
 3.37% (2008)
 Market Cap: € 279.02 m

Financials (2008):

Revenues: € 110.65 m
 EBIT Margin: 40.33%
 Net Margin: 29.95%

Valuation Metrics:

	Grenkeleasing	DAX
P/E	7.35	18.09
P/B	0.99	1.03

Institutional Investors:

1. Grenke Family	40.48%
2. Baillie Gifford & Co.	5.15%
Freefloat	54.39%

GRENKELEASING STOCK PRICE



INVESTMENT THESIS

Grenkeleasing is one of those very rare situations where the economic downside is close to zero as the company is trading at a discount to its liquidation value. The upside by contrast is very high as Grenkeleasing will be able to grow and pay out dividends for a very long time yet. An Investment into this company is close to be the perfect Kelly bet.

»THE CHEST - ROBERT VINALL«

a fast clip in recent years, but as you correctly point out operating earnings have been flattish. The reason is a very happy one – The company has been investing these incremental profits in its long run earnings power by opening new offices in overseas markets.

These cost money in the short term but increase earnings in the longer run. Grenkeleasing has no intention to stop investing as long as it sees attractive opportunities to do so and as a shareholder in the company, I am very happy this is the case.

»Grenkeleasing is one of those very rare situations where the economic downside is close to zero.«

EVI: Ronny Ruchay of FPM Frankfurt Performance Management has already briefly presented Grenkeleasing in EVI 2/2008. Particular in its accelerated expansion into new European countries he saw enormous growth potential for Grenkeleasing. How do you think about that?

Vinall: Ronny is spot-on. In most overseas markets, Grenkeleasing is close to the beginning of its growth curve. Only in France and Switzerland the business has started to approach the level of maturity of the German market. However, Gren-

keleasing should even be able to grow in Germany - a market I previously thought had reached maturity - as its capital-constrained competitors are forced to retrench.

EVI: What are the risks?

Vinall: Grenkeleasing's main risks are an increase in the number and severity of defaults and a hike in its own financing costs. Given its very high equity ratio, neither of these risks have the potential to impair Grenkeleasing's excellent business model.

EVI: What are your thoughts on valuation?

Vinall: Grenkeleasing is one of those very rare situations where the economic downside is close to zero as the company is trading at a discount to its liquidation value. The upside potential by contrast is very high as Grenkeleasing will be able to grow and pay out dividends for a very long time yet. It is close to the perfect Kelly bet.

EVI: Which other investment idea will you present to us?

Vinall: The second investment idea that I have brought a long is Maschinenfabrik Berthold Hermle (ISIN: DE0006052830). Berthold Hermle is a family-run machine builder based in Gossingen in Southern Germany.

EVI: Why do you see particular potential in this company?

Vinall: Berthold Hermle exhibits all of the characteristics that I look for in an investment. It is run by an owner manager who has talent and integrity; the returns to its owners are exceptional as it is able to grow and disperse all of its earnings in dividends as it requires little capital to grow; it is protected by entry barriers, in particular reputation and economies of scale in service and distribution.

EVI: Could you please describe the business model in more detail?

Vinall: Berthold Hermle develops, manufactures and distributes machine

MASCHINENFABRIK BERTHOLD HERMLE

ISIN DE0006052830

Business:

Leading manufacturer of machine tools (boring and milling machines and vertical machining centers)

Stock information (02/24/2009):

Price: € 38.30
 52 Week Range: € 98.45 - € 36.30
 Dividend Yield: 5.35% (2009e)
 11.98% (2008)
 Market Cap: € 191,50 m

Financials (2007):

Revenue: € 243.03 m
 Operating Margin: 23.41%
 Net Margin: 14.77%

Valuation Metrics:

	Berth. Hermle	DAX
P/E	6.77x	18.09
P/B	0.99x	1.03

Institutional Investors:

- Hermle¹⁾ 36.82%
- Günther Leibinger²⁾ 32.50%
- Weber Vermögensverwaltung 6.87%

Freefloat 23.81%

¹⁾Dietmar Hermle (24.90%), Hermle Verwaltungs GmbH (7.92%), Hildegard & Katharina Hermle-Stiftung (4.00%)

²⁾Member of Board of Directors

BERTHOLD HERMLE STOCK PRICE



INVESTMENT THESIS

Hermles margins are more than double the industry average. The upside is potentially very high. The dividend yield alone is close to 20 percent today. Of course, its earnings will compress substantially this year as the world enters recession. However, it is a fair bet that in five years time Hermle's earnings will be higher than they are today. I think you could make a good case that Hermle is the second best Kelly bet on the German stock market today.

tools. Its clients tend to be a cross section of all manufacturing industries. The manufacturing of a production tool tends to be the first step in virtually all industrial production process. When I was last at Hermle's shop floor, I saw the cast being made for a ski boot and an optical lens on the same machine!

»Berthold Hermle is the second best Kelly bet on the German stock market today.«

EVI: What is Hermle's competitive situation?

Vinall: The structure of the machine tool market is highly fragmented. There are a handful of well-known names such as Berthold Hermle and Gildemeister (ISIN: DE0005878003) and then hundreds if not thousands of smaller players.

In the short term, the competitive situation is likely to become less favourable for everyone as the market is contracting at the fastest rate since the early 1990s. In the longer term, Hermle will probably benefit from this development as it has a far higher profit margin than the industrial average and is very well capitalised.

EVI: Your investment thesis for Berthold Hermle?

Vinall: The downside in Berthold Hermle is exceptionally well protected – its margins are more than double the industry average and approximately half of its market capitalisation is made up of net cash. No matter, how severe the current recession turns out to be, Hermle will do just fine. In fact, a particular severe recession would probably increase the company's intrinsic value as many of its competitors will fall by the wayside, leaving Hermle with a far higher market share than today when the next upturn comes along.

The upside is potentially very high. The dividend yield alone is close to 20% today. Of course, Berthold Hermle's earnings will compress substantially this year as the world enters recession.

However, it is a fair bet that in five years time Hermle's earnings will be higher than they are today. I think you could make a good case that Hermle is the second best Kelly bet on the German stock market today.

EVI: Is now the right time to buy such a cyclical company?

Vinall: It may seem counterintuitive to be

buying a cyclical company during a recession. However, great investment opportunities tend to only come along when the outlook is bleak. Of course, if I knew the exact length and the depth of the current recession, I might be tempted to try and time a purchase, but unfortunately, I do not.

What I do know, however, is that, no matter how severe the recession is, there is very little risk of a permanent loss of capital as Berthold Hermle is the last man standing in this industry due to its cost leadership and overcapitalised balance sheet.

EVI: What are the risks?

Vinall: Berthold Hermle's main risk to follow is the compression in the order intake as many of its customers are cutting back on Capex due to weak demand from their customers.

EVI: Where do you see Hermle's fair value?

Vinall: I think returns to owners should be comfortably above 15%. The stock price should track the development of the business over a long enough time frame.

EVI: What have been your biggest investment mistakes?

Vinall: My investment mistakes are too numerous to list here. I noticed

a few years ago that two common threads ran through all my investing mistakes. The first was that I was buying inferior businesses due to what I perceived at the time to be a low multiple (but alas not a low valuation).

The second was that I was buying inferior businesses due to the prospect of a fast buck or what analysts term a "catalyst".

EVI: How do you avoid these mistakes today?

Vinall: I corrected the first mistake by focussing more on the quality of the management and the business model than on the valuation. The second mistake I avoid by opting my investments for an indefinite investment horizon.

EVI: What will you be doing in ten years?

Vinall: I love what I am doing and hope to be doing the same thing in 10 years time. My ambition is that in ten years time I will be able to look back

upon an outstanding track record. Value investing is so exiting that I can't imagine ever be bored by it.

EVI: Thank you very much for the interview! ■

»Value investing is so exiting that I can't imagine ever be bored by it.«

Remark: The disclaimer note published on the last page of this edition is applicable to the entire content of this article.

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