

GEHLEN BRÄUTIGAM

CAPITAL

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Letter to Partners #12

Q1 2021 (04/01/2021 - 06/30/2021)

July 23rd, 2021

Dear Partner,

In the second quarter of 2021, our fund gained +10.5%. The performance in the first half of 2021 amounts to **+31.9%**. The fund volume stands at EUR 22.8 million at the end of the quarter. We ranked **#1 in the Equities - Europe (Small & Mid Cap)** category according to [Citywire](#) (time period: June 30th, 2020 - June 30th, 2021).

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 172.83 at the end of the quarter. The **overall gain since inception is +72.8%** and the **compounded annual gain is +20.0%** (compared to +32.9% or +9.9% p.a. for our reference index).

Net performance figures (including distribution), after deducting all costs, the -S-, -R- and -I- tranches:

	-S- Tranche	-R- Tranche	-I- Tranche	MSCI Europe S&M Cap
2018	-2.9%*	-2.5%**	-	-17.2%*
2019	+10.3%	+9.2%	+8.3%***	+30.6%
2020	+22.3%	+20.9%	+21.3%	+5.8%
2021 H1	+31.3%	+30.6%	+31.1%	+16.2%
Since inception	+72.8%	+69.1%	+72.9%	+32.9%*
Annualized return	+20.0%	+20.5%	+24.5%	+9.9%*

* Since the -S- tranche was launched on July 2nd, 2018 until the end of 2018 (approx. 6 months). ** Since the -R- tranche was launched on September 7th, 2018 until the end of 2018 (approx. 4 months). *** Since the -I- tranche was launched on January 2nd, 2019 until the end of 2019.

Note: Due to the different starting times and fee structures, there may be deviations in the performance of the individual tranches.

Note: MSCI Europe Small & Micro Cap index; net-return (EUR).

All three tranches of our fund are currently open for investment:

The -S- tranche is closed to new investors. Existing investors can order additional fund units with a minimum investment of EUR 10,000. The -R- tranche can be invested in without a minimum investment amount. In the -I- tranche, the minimum investment amount for new investors is EUR 200,000. Existing investors in the -I- tranche can order additional fund shares without a minimum amount. You can find the respective tranche using the following **ISINs** as well as the links below for further information:

[-S- Tranche: DE000A2JF8Z7](#) [-R- Tranche: DE000A2JQHQ2](#) [-I- Tranche: DE000A2N8119](#)

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Portfolio

GYM Group and **Basic-Fit** were able to report an encouraging rebound in membership figures following the reopening of their discount gyms. Member levels are already back at almost 90% of pre-crisis levels. Due to the challenging environment for commercial real estate, the two market leaders are also being offered more attractive locations than ever before. Against this background, both companies intend to accelerate their expansion. Recently, they have carried out capital increases and are thus very well positioned to achieve their ambitious expansion targets.

Sto raised its medium-term forecast in the past quarter, which was very positively received by the market. Specifically, the company plans to increase its sales organically to EUR 2.1 billion by 2025, which would correspond to annual growth of approximately 9%. At the same time, the EBT margin is expected to increase sustainably to >10%. Considering the very solid, and in our view too conservative, balance sheet, we also expect additional growth through acquisitions and possibly a high special dividend (as in 2015, when over EUR 25 per share was distributed).

Also showcasing a conservative balance sheet structure is **Italian Wine Brands (IWB)**, which initially was one of the few points we did not like about the investment. However, this changed with the EUR 130 million bond issue announced in April. Then, at the end of the quarter, the company announced the acquisition of Italian wine producer and competitor **Enoitalia**. The combined company is set to become the leading private Italian wine producer. The companies, which are almost the same size, complement each other ideally. Enoitalia is already present in the USA, for example, and has a good market position in the UK. IWB can now draw on this to grow more strongly in these markets. While IWB is particularly strong in the red wine segment, Enoitalia offers a broader portfolio of white wines and Proseccos. In addition to synergies in sales, the two companies also plan to leverage synergies in production in the short term and make even better use of existing capacities.

At the end of the quarter, we held 24 individual stocks in the portfolio. In addition to two new investments, which we report on below, we completely exited two positions, **MPC Capital** and **PRISA**. The weighting of the two positions in the portfolio had been significantly reduced due to further cash inflows. At the same time, we were not able to gain the necessary conviction to buy additional shares.

In April, we started to build up a position in **Villeroy & Boch**. We had been following the company closely since before the fund was launched. Even though we had some doubts, we always found the situation interesting. However, it was only after the presentation of this year's first quarter figures that a discrepancy between price and value emerged that we could no longer ignore. At nearly the same time, the acquisition of the competitor Ideal Standard from Belgium was shelved which eliminated a significant risk factor.

The current business development is very convincing, both in terms of sales and profitability. We are curious to see to what extent profitability (particularly in the Bath & Wellness division) can be sustainably improved. We are hopeful, not least because the potential for higher profitability undoubtedly exists. In addition to a look at comparable companies in the sector, this was also confirmed to us in discussions with (former) employees and management. In our view, the environment in the residential construction sector is expected to remain positive. Last, but not least, we are convinced that the strong focus on sustainability is the right positioning for the future.

There are also pleasing developments in the Tableware division. The digital initiatives, for example, are making a very positive impression. The increased importance of the home and the restrictions on stationary trade have been a strong driver for online business. In the coming years, a further reduction in brick-and-mortar stores will also free up capital for investment in the online sector.

The current balance sheet is very conservative with a cash position of EUR 300 million, even taking into account (pension) liabilities. In the case of Villeroy & Boch, we would not prefer a large acquisition. The search for suitable (smaller) targets is currently more difficult as private equity investors are very active in this area and are often willing to pay significantly higher prices. We would therefore like to see a larger dividend or, even better, an offer to buy back shares.

For a quality company - Villeroy & Boch continues to benefit from a strong brand and an excellent positioning in the bathroom sector - with further growth and margin expansion potential, we found the valuation far too cheap with a P/E 2022e of around 10x and an almost double-digit free cash flow yield. Shortly after our entry, the company significantly increased its full-year guidance, which has already led to a correspondingly positive reaction in the share price.

In the following section, we go into detail about our "Circle of Competence". Finally, we present a new portfolio position in more detail. As usual, you will find further information on our portfolio on the last pages.

With this issue, we would also like to celebrate our three-year fund anniversary. Our mission is to maximize the long-term return on the capital you entrust to us without taking unnecessary risks. We look forward to many more years together with you and thank you very much for your trust. Please feel free to contact us at any time with questions or comments.

Sincerely yours,



Daniel Gehlen



Marc-Lennart Bräutigam

Follow us: 

Expanding our circle of competence

In our world, the term circle of competence can be drawn around geographies, sectors and companies an investor is familiar with, has gained experience in and built at least a basic knowledge.

As humans, we tend to stick to the habits and behaviours that have helped us to survive and thrive in the past. We have a strong tendency to stay away from anything new as it could be a potential danger. You probably have experienced this in real life at some point as well.

When you entrusted us to manage your hard-earned money, we felt a great responsibility to manage it prudently. It would have felt reckless to us to allocate it towards companies and sectors we are not familiar with, and we would have likely made several avoidable mistakes.

As an investor, however, we believe it is very much needed to step outside of the comfort-zone on a regular basis without ignoring the risks of doing so. **As controversial as it may sound, it is riskier for us to not look at new opportunities or explore the unknown, rather than simply sticking with the known.**

For example, when we had first investigated the auto dealership space at the start of the fund, we were intrigued by the cheapness of stocks such as Cambria Automobiles Plc in the UK and had even invested after a thorough due diligence. Cambria is a traditional car dealership and has limited exposure to online sales. Although there is nothing wrong with that, as consumers adopt their purchasing behaviour towards online and social media channels, we as investors must adopt and learn. Therefore, we started looking more and more into "new" dealership models such as Kamux (Finland), Carvana (US) and Auto1 (Germany).

Further, it is key for us to stay on top of developments and to follow new business models that emerge. The young companies of today may be the industry disruptors or, simply, new competitors of tomorrow. If we would ignore these developments, we would risk betting on the wrong horse(s) and would not be able to provide you with the best possible ideas.

With [Kory Kaunisto](#) having joined our team about one and a half years ago (time flies when you are having fun), we had a fantastic opportunity to enlarge our circle of competence substantially.

Coming from an American background and having worked in Hong Kong for nearly four years before joining our fund, it goes without saying that, despite sharing the same values, he brings diversity of thought and a new mindset to our team. Kory brought new ideas to the table on geographies, sectors, and the companies within them. Being based in Poland also offers us the opportunity to add a new market with a deep pool of (high-quality) publicly listed companies to our universe.

Kory has already looked at and researched many companies in the Polish market in the last year. In that process, he has identified several interesting candidates. In our view, the Polish market is also well-suited for value investors as, as of today, valuations are usually lower than in Western European counterparts. This is despite an

economy which has yet to reach its full potential (although it is well on its way) **as well as** a solid business environment and thus a relatively low country risk (which is likely overstated by many foreign investors).

Until today, we haven't made an investment in Poland yet. We have certainly missed opportunities, but that's okay. We still feel that the Polish market is new to us and different than markets such as Germany, France or the Netherlands and it takes time to expand our circle of competence. However, at this point we are convinced that, after carefully assessing the opportunities and the specific risks, we will find some excellent investment opportunities and build the conviction to buy into some of them in the future.

We also remember how strange it felt in the beginning when Kory proposed the idea to look closely into a company from the eSports industry ([Endor AG](#)). Besides a basic knowledge about strong trends in the eSports segment, we started with few industry insights (apart from our own PlayStation and Xbox experiences in the past). Thanks to the persistence and hard work of our newly joined partner, we quickly got up to speed and ended up with not only a new top holding in our portfolio, but also an enlarged circle of competence and the great feeling of having learned a lot of new things about a fast-growing industry and the companies within it.

Another positive side effect of researching new industries is that it also deepens our pool of possible investments as we are getting more and more familiar with players in the space. In gaming we are now quite familiar with interesting, related names such as Nacon (FR) and Asetek (NO). Additional names are sure to follow as we further investigate this exciting space.

Another major trend we (and many others) are following closely is ecommerce. A recurring theme is that we are finding opportunities in areas within ecommerce that lag penetration compared to the products that have traditionally thrived in ecommerce, such as fashion and electronics due to their logistical, marketing and regulatory fit. As the world continues to digitize, we believe there are still so many opportunities in online retail that are just now beginning to gain adoption since cracking the ecommerce code. Consumers are increasingly becoming comfortable with buying items such as wine, vehicles and furniture online as companies discover more efficient solutions for providing such goods online.

As always, we will be careful not to overpay for the dreams some might promise. However, if we find companies in these spaces that we can buy with a sufficient margin of safety, we love to do so. After all, buying good companies with large potential at attractive prices is a good basis for exceptional returns.

We had previously presented [Naked Wines](#) to you, which is currently disrupting the wine industry in the US, UK and Australia. More recently, we came across home24. Especially our Germany-based investors might be familiar with the online furniture retailer. It is one of the remaining segments where online penetration is still at low levels. This leaves a great growth runway for the companies within it. Although it is too early to tell who the ultimate winner(s) will be, we believe that home24, especially with the more recent improvements the company has made, has a fair chance of being amongst them. In the following case study, we outline why we believe this could be the case.

Home24 - A misunderstood leader in a very large and fast-growing market

Home24 is a leading online home and living retailer in continental Europe and Brazil with total sales of nearly EUR 500 million in 2020. Home24's Brazilian business operates under the Mobly brand and was spun off in early 2021, whereas home24 remains the majority shareholder.

In our view, the business presents a unique investment opportunity due to the nature of the market it operates in, a successfully executed operational turnaround and a very attractive valuation both relative to peers and on a standalone basis. COVID-19, and resulting lockdowns, have also had a positive impact on the recent results as well as the long-term outlook.

To give an idea of the present growth prospects within this business, home24's management expects long-term growth of 20% p.a. to be achievable due to the size of the market alone. The home and living market is huge: EUR 560 billion worldwide, and EUR 120 billion in home24's geographies alone. Home24's opportunity is amplified by the belief that home and living itself is very under-penetrated relative to other products.

Current barriers within home and living that have hindered online penetration include low brand trust, relative item cost and item size (impacting logistics). Home24 has made substantial progress addressing these pain points which in our view is also reflected in the more recent performance.

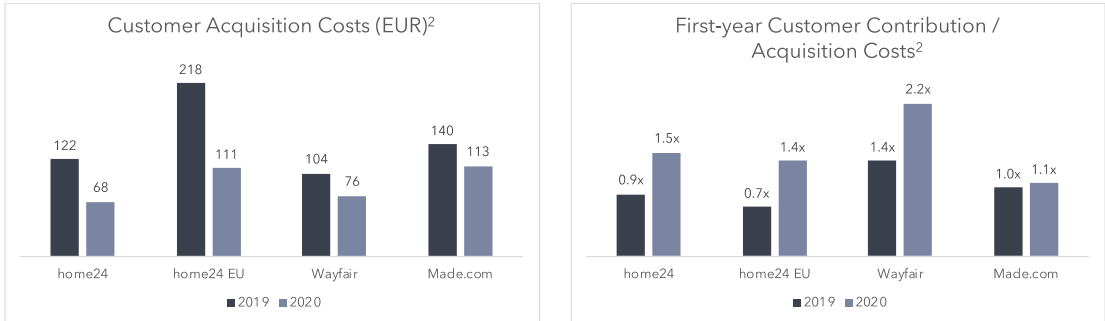
By providing a large, relevant assortment through a mix of private label and 3rd party products, home24 creates a broad and attractive offering for customers searching for furniture online. This is accommodated by features such as search by image - and increasingly augmented & virtual reality - as well as a best-in-class app which help the consumer gain comfort in a purchase that is typically more highly priced than other ecommerce products and traditionally physically inspected in-store. Finally, free shipping eliminates customers' worries about the additional cost and hassle of transporting bulky items.

Tracking loyalty and trust in the home24 brand can admittedly be complex because furniture consumers typically make their largest purchase first and, on average, do not spend large amounts for at least two years. Against this background, home24 aims to be profitable on the first purchase. In recent years home24 has not only achieved this goal, but the level of profitability has been steadily improving. We also have confidence that as the brand loyalty and trust builds, revenue from both new and old cohorts will continue to increase. Finally, home24 is already amongst the most recognizable brands in the space in Germany, according to latest surveys.

In the quarters and throughout the year after the IPO in 2018, home24 missed revenue targets and struggled to efficiently acquire customers. The company appeared to be in a downward spiral which was reflected in a steadily declining share price. Some reasons for the underperformance that have been penalized by the market, but are now fixed, include issues implementing their ERP system and their logistics network. Especially the logistics are more complicated than in other ecommerce businesses due to the size, weight and bulkiness of the items. Additionally, the management team admits that they expected adoption to take place faster.

Since the missteps following the IPO, home24 has undergone an impressive turnaround driven by improvements of internal processes, marketing and logistics and proven by the ability to take advantage of COVID-19 shifts.

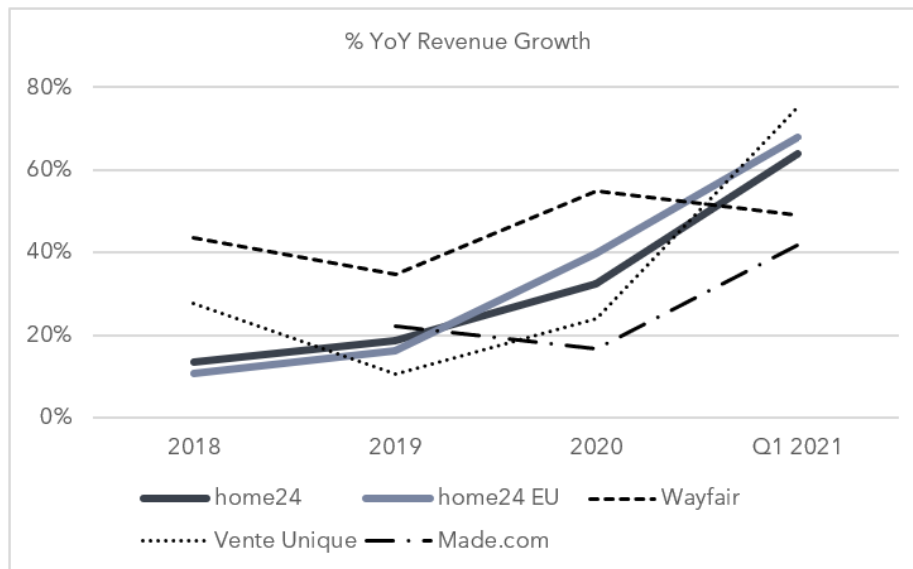
Home24 KPIs show great improvements in marketing effectiveness, including incremental sales per marketing spend (doubled since 2018) and customer acquisition costs (halved since 2018). The gains in marketing effectiveness have been a large driver of the increasing ratio of first-year customer contribution to customer acquisition spend. Of course, the exceptional situation during the lockdowns has been a strong tailwind to the company. However, also comparing the ratios to some key competitors shows that they are no longer lagging some of home24's closest peers. As the company scales and volumes increase, we expect unit economics and KPIs to continue to improve.



Source: Customer contribution and customer acquisition costs are based on company financial data as well as internal estimates and calculations. Group (global) metrics shown for Wayfair; according to our qualitative research, metrics in Germany are likely significantly weaker.

COVID-19, and the resulting lockdowns, benefitted home24 and other online home and living companies in at least two major ways: the nearly forced switch to ecommerce due to the closure of stationary retail and "cocooning" - the increase in time spent and variety of activities (including working) at your home resulting in increased home and living spending.

Thanks to improving operations and customer acquisition, home24 has been able to take advantage of COVID-19 shifts and grow revenue in percentage terms at a pace nearly equivalent or better than competitors since the pandemic. This is in stark contrast to revenue growth in 2018 and 2019 when home24 was struggling to keep up with the strongest peers post-IPO.



Note: Based on internal calculations and company data.

Now that home24 has gone through its turnaround phase and has been able to grow in line with expectations throughout the past year and quarters, there remain multiple margin levers that will continue to be used over the coming years. We, as well as management, believe they have not maximized their potential in: (1) scale and purchasing power, (2) return recoveries from secondary business, (3) private label products that have higher margins, and (4) price elasticity that comes with being smarter with data.

We expect the mid- and long-term can bring a 50% gross margin and a 10%+ EBITDA margin. In the near-term, the company is approaching breakeven and management forecasts to be true cash flow-breakeven by 2022. Additionally, home24's balance sheet provides stability considering the cash raised from the capital increase in December 2020 and the Mobly IPO in February 2021. This is a very different situation compared to 2019 when the company was generating significant losses and was running out of cash.

We believe that although there will be some cooling down in the acceleration caused by COVID-19, the trends are structural and will continue to benefit online home and living stores by providing very attractive growth in their market for years to come. We acknowledge concerns about a post-COVID world with a potential for revenue drops, or slower growth, in the very short-term. However, we believe that the impact on home24's long-term valuation and its ability to compound over time is not very significant. If anything, it might present an opportunity to buy shares at a cheaper price.

In summary, an investment in home24 gives us exposure to a market leader in a huge, growing market with a clear path to profitability and impressive unit economic improvement for a fraction of the price of its competitors.

Another way to think about the investment case is that 65% of the current market cap can be derived from the equity stake in Mobly, the cash position (including proceeds from the Mobly IPO), and a conservative valuation of the deferred tax asset. The 35% left (~EUR 150 million) is all that the market is giving to home24's leading European business, which could generate revenue of EUR 500 million this year alone. This is a revenue multiple of ~0.3x whereas similar companies in the same or comparable spaces are often valued at multiples of revenue.

Although it might be too early to say how the online space in this industry will look like in 5-10 years, and who the ultimate winners will be, we think that the current share price significantly undervalues the potential of home24. We also believe that the strategic value of the customer base and logistics capabilities to a third party exceeds today's valuation.

Portfolio overview

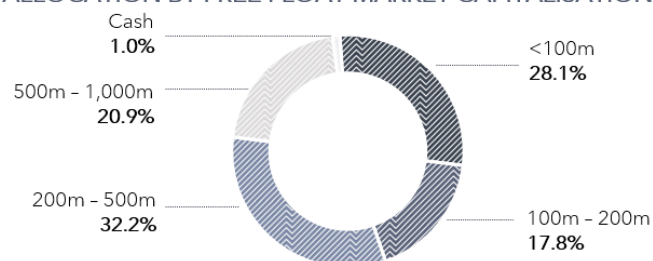
Top 10 positions with respective weightings as of June 30th, 2021:

1	The Gym Group	7.8%	6	Naked Wines	4.9%
2	Sto	7.3%	7	Muehlhan	4.8%
3	Akwel	6.7%	8	Italian Wine Brands	4.4%
4	Endor	6.1%	9	Koenig & Bauer	4.2%
5	Catana	5.0%	10	Holland Colours	4.2%

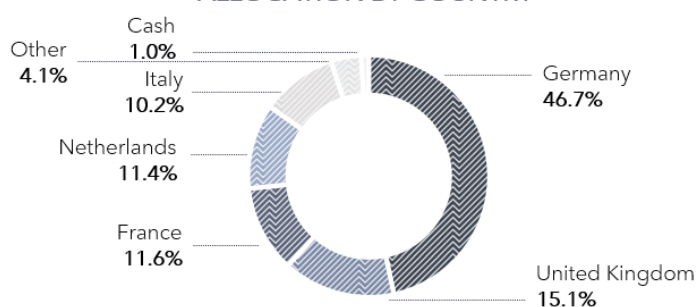
Source: HANSAINVEST.

Allocations as of June 30th, 2021:

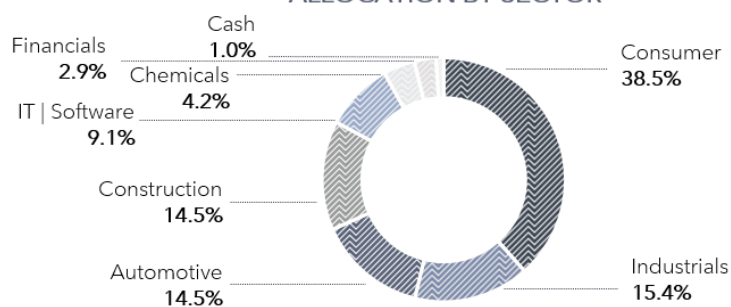
ALLOCATION BY FREE FLOAT MARKET CAPITALISATION (EUR)



ALLOCATION BY COUNTRY

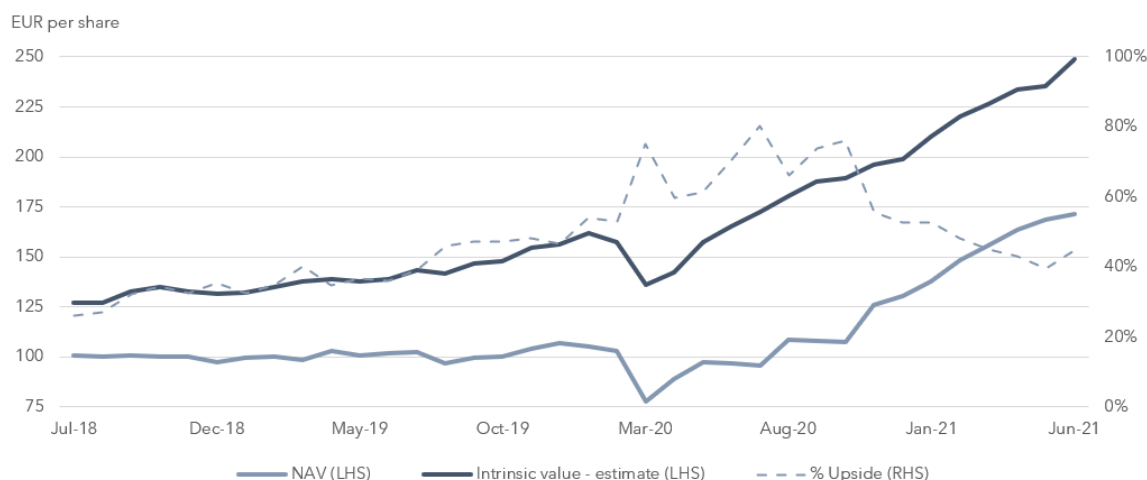


ALLOCATION BY SECTOR



Source: HANSAINVEST.

Development of the intrinsic value determined by us in comparison to the development of the current price of a unit (NAV) since inception:



Source: Gehlen Bräutigam Capital; HANSAINVEST; as of June 30th, 2021.

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