CIR

Investment recommendation: Buy

Current Price: €0.44 / Target Price Range: €0.56 - €0.61

We see a long term 50%-85% potential upside in the share price of Compagnie Industriali Riunite S.P.A (CIR). This valuation is driven by the company's significant net cash position alongside the consolidation of results obscuring the true value of CIR's holding in KOS.

Executive Summary

CIR is a holding company controlled by the De Benedetti family based in Milan, Italy. The company owns a controlling stake in an automotive parts manufacturer, Sogefi and a healthcare group, KOS, that is primarily engaged in long term geriatric healthcare.

Our analysis and valuation shows that the market is significantly under-pricing the value of CIR. The key drivers of our thesis are:

1. 75% of market capitalisation held in a net cash position.
2. Strong and defensible competitive advantage of KOS in Long Term Care.
3. Management focus on increasing shareholder value through simplification and buybacks.
4. Consolidated financial statements confuse underlying value.

The key risks to this investment are:

1. CIR allocates further capital to Sogefi.
2. CIR management fails to translate its net cash position into value for shareholders.
3. Significant reduction in government healthcare spending in Italy and Germany reduces profitability of long term care segment.
4. KOS management destroy shareholder value by mismanaging its expansion into Germany, or by failing to defend its current competitive advantage in Italy.

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Market Data	
TKR	CIR:MIL
Price (€)	0.40
12M High	1.50
12M Low	0.597
Shares (M)	1,280
Mkt Cap (M)	510.88

Major Shareholders	
Fratelli De Benedetti	30%
Bestinver	9.97%
Cobas AM	9.68%
Dimensional F.A	3.78%
Norges Bank	3.51%
Vanguard	2.94%
Credit Suisse	2.43%

CIR - Overview

CIR, initially a regional tannery, was acquired in 1976 by Carlo De Benedetti to form the basis of a holding company. Under his leadership, CIR has been involved in a wide variety of sectors from energy to food manufacturing. In 2012, Carlo De Benedetti transferred control of CIR to his three sons, Rodolfo, Carlo and Edoardo. Following this, Rodolfo De Benedetti stepped down from his role as the company's CEO, becoming chairman with Monica Mondardini succeeding as CEO. Under Mondardini's leadership, the company has simplified its holding structure and exited from the media sector, selling its stake in GEDI to EXOR for €104M in April 2020. The complete holdings of the company are now a 59.5% holding in KOS, a 56.6% holding in Sogefi, and €68.8M of non-core private equity and common stock investments.

The core blemish on CIR's record was its failure to exit its position in Austrian electric company Sorgenia before unforeseen shocks to the energy industry forced CIR to cede its equity to the company's creditors in 2015.

KOS

Kos is a healthcare company, primarily deriving its revenues from long term care (LTC) facilities. The core competency of this company is its Italian LTC business in which it is the largest operator. KOS also runs Medipass, a high technology medical service company, and operates Suzzara hospital.

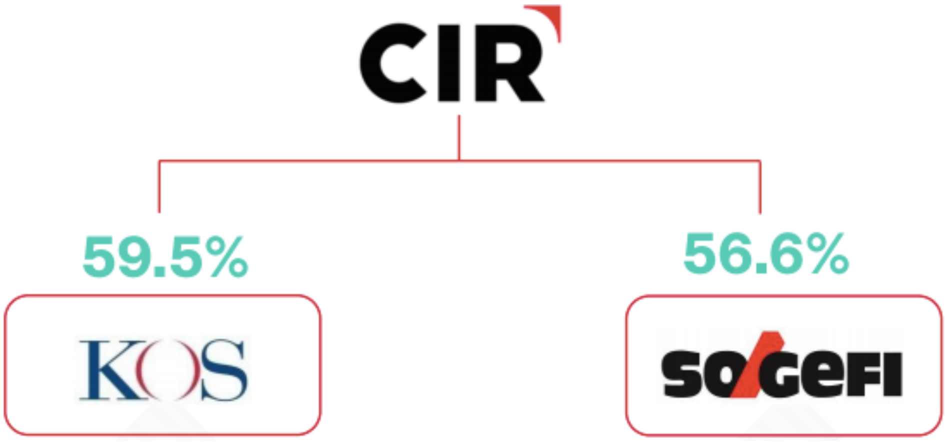
Sogefi

Sogefi is an automotive parts manufacturer, supplying most global car brands. The business is divided into three key areas: Air & Cooling, Suspension, and Filtration. The majority of Sogefi's revenue is generated in Europe, however 40% of sales come from North America, South America & Asia.

Management

We believe that chairman Rodolfo De Benedetti and CEO Monica Mondardini are capable of creating value for minority shareholders. Rodolfo De Benedetti, along with his brothers Carlo and Eduardo, is the controlling shareholder of CIR, holding 30% of the company and 45% of voting rights. The De Benedetti brothers have demonstrated their alignment with minority interests through their recent support of the CIR-Cofide merger in 2019 and responsible sale of the GEDI media group. Prior to joining GEDI as CEO in 2009, Monica Mondardini had a successful career during which she led the Spanish insurer Generali, focussing on acquiring and integrating local insurers. We believe that in her role as CEO of CIR, Mondardini is competent and capable of creating value for minority interests.

Holding Structure



Prior to 2020, Cofide (another De Benedetti company) owned 56.5% of the old CIR holding company. This structure existed due to historical planning by Carlo De Benedetti that was no longer relevant to CIR and Cofide's long term ambitions. Therefore in December 2019, CIR (old) merged into Cofide with shareholder's receiving 2.01 Cofide shares for each CIR (old) share. The new company, named CIR S.P.A, now sits solely atop the holding structure. This merger aimed to increase the free float of the combined company and thus increase its attractiveness to investors.

Non-Core Holdings

CIR has a portfolio of private equity investments with a fair market value of €56.5M. These investments have reached maturity and therefore it is expected that this value shall be realised in the near/medium term. CIR also has an €11.2M portfolio of minority equity stakes.

Operating expenses

In 2018, prior to the simplifying merger of Cofide (The holding company of CIR) and CIR, the total operating expenses of the two companies came to €12.9M**.** The merger is expected to reduce costs, due to synergies such as reducing the size of the overall board, however as Cofide was essentially an empty shell, these cost reductions are not expected to be exceptional.

Net financial Position

At holding company level, CIR has €407.2M in liquid assets and €24.1M of debt. The net financial position of CIR therefore is €383.1M. This is approximately 75% of the company's total market capitalisation.

Investment Thesis

Net cash position equals 75% of the current market capitalisation

CIR's large net cash position greatly reduces the risk of this investment. This cash holding provides allows a degree of certainty in our valuation as 75% of the value of each share is already held in distributable cash. Additionally, in an economic downturn such as the current Covid-19 related recession, this cash maintains its value and thus this proportion of CIR's intrinsic value does not decrease.

Strong and defensible competitive advantage of KOS in growing Italian Long Term Care market

KOS is the leading long term care operator within Italy with 8,283 beds largely concentrated in the wealthy northern regions. The bureaucratic nature of healthcare in Italy, in which the process of opening a new care home is regulated on the regional and municipal level, affords KOS a significant advantage over new entrants to the market. Relationships with local authorities, built up since the company opened its first care home in 2002, allow KOS to navigate this difficult regulatory environment and continue to expand its Italian presence as demand for long term care grows. Additionally, the benefit of size allows KOS the ability to professionalise and standardise its service, greatly increasing quality, whilst also accessing greater economies of scale than rivals and potential new entrants.

Management focus on increasing shareholder value through simplification and buybacks

We see the recent actions of management as evidence of a focus on enhancing value for minority interests.

The CIR-Cofide merger clearly enhances the attractiveness of the stock to investors by increasing the free float to around 870M shares, of the 1.2Bn outstanding. This reduces the illiquidity risk of the stock and therefore opens the company up to investment from investors previously constrained by thin trading in the individual CIR (old) and Cofide stocks. Additionally, combining the two companies ends unnecessary structural complexity and makes it easier to value the new entity.

The sale of GEDI is another example of value accretive action by management. GEDI is the leading media company in Italy, however, faced with the headwinds of the media sector, the company's profitability has faltered in recent years. The exit of from this unprofitable business with little prospect for future growth in April 2020, illustrates a commitment to shareholder value and releases cash that can be put to better use.

In light of Covid-19, so as not to preclude KOS & Sogefi from accessing government loans, CIR management has opted not to pay a dividend or buyback their own stock. It is highly likely however that in 2021 CIR will initiate a significant buyback policy to make use of cash holdings. In conversation with our team, officers of CIR have underlined their commitment to increasing NAV per share through a buyback policy as was implemented at CIR (old). Like management, we agree that the intrinsic value of CIR is far higher than its current share price and therefore the buyback programme they aim to pursue is value accretive to shareholders. Most importantly, this action converts balance sheet cash into real value for shareholders.

Consolidated financial statements confuse underlying value

Sogefi is a clear stain on CIR's consolidated financial statements. The absolute size of the company, its poor operating performance, and its concerningly high debt load, outweigh the strength of KOS when viewed on CIR's financial reports. However, these consolidated reports are misleading in the assessment of CIR's actual income and liabilities.

CIR is a holding company, and therefore the consolidated revenue it reports does not occur on its own books, but those of the companies it holds. The key point is that if KOS or Sogefi make a loss, CIR reports this on its consolidated income statement, but does not actually bear the loss. The value of CIR's holdings is in the distributable free cash flows of these businesses, and therefore these companies can only contribute positively to the value of CIR. Crucially, the weakness of Sogefi does not detract from the strength of KOS.

We believe that due to CIR's small size, and lack of substantial coverage, the market is currently valuing the company as if its consolidated financial statements are truly indicative of its distributable free cash flows. We have checked this thesis by conducting a valuation of CIR using this method and find that if the consolidated financial statements are taken to be representative of CIR's true value, then the current share price is fair.

KOS – Company Overview

Founded in 2004, KOS has grown rapidly from a regional healthcare group to a dominant player within the Italian market. This expansion has primarily come through a targeted acquisition policy, although the company has had considerable organic growth alongside this.

KOS currently operates in three subsectors of the healthcare industry:

- Long-term care
- cancer diagnosis and treatment services
- acute care

In Long Term Care (LTC), the group operates 134 facilities, of which 87 are located in Italy and 47 are located in Germany, with total of around 12,300 beds. The Italian facilities are predominantly located in the more densely populated and wealthier northern parts of the country, while the German facilities are largely located in the Western half of the country. Management believes the socioeconomic and regulatory environments of these regions are attractive and will continue to focus on these areas.

In Cancer treatment and diagnostics, the group operates 35 facilities, of which 17 are located within Italy (concentrated in the North), 3 in the UK and 15 in India.

In acute care, the group operates 1 hospital - Suzarra Hospital in Northern Italy. The management of this hospital by a private operator was an experiment by the Italian government in 2004, and KOS management is not looking to increase their position in this market.

<u>Management</u>

Most of management has been with KOS for decades; and have rich experience in the healthcare sector. The only exceptions are Carlo Michelini, the representative of the other shareholder in KOS, F2i, and Monica Mondardini, CEO of the CIR group.

Leadership Team

Chairman:
Carlo Michelini

Managing Director:
Giuseppina Vailati Venturi

Managing Director - Medipass:
Guglielmo Brayda di Soleto

Managing Director – LTC:
Enrico Brizioli

Managing Director – Suzarra:
Paolo Tassinari

KOS - Business Strategy

Long Term Care

KOS is centred around its Long-term care business, which currently represents around 80% of revenues. LTC provision is divided into two key divisions; geriatric care (40%) provided through the Anni Azzuri brand, and psychological/physical rehabilitation (40%) provided through the Santo Stefano and Neomesia brands. The company plans to replicate this model in countries with high-quality public healthcare, and continue to grow through acquisitions and greenfield projects. LTC is expected to remain the predominant source of revenue for the group.

In the short term, management plans to integrate recent acquisitions into the group structure and increase efficiency, particularly in Germany where Charleston has below-industry average margins.

In the longer term, management aims to use its new long term care foothold in Germany to launch further acquisitions. This market is large, wealthy and highly fragmented, providing an attractive opportunity for KOS to expand its international presence.

Medipass

KOS's Medipass business specializes in providing integrated high-tech services in the area of cancer imaging and diagnosis. The provision of equipment through loan-purchase agreements allows client medical centres to significantly save on maintenance costs and reduce the burden of risks from any malfunction in the machinery. Being able to loan the equipment, as opposed to an outright purchase, allows many lower budget medical centres access to equipment of the highest standard. Additionally, Medipass provides staff and technicians to operate and maintain the equipment, along with expert medical professionals. In addition to these services, Medipass also provide outsourcing of cancer diagnosis to medical centres without the capability of doing so internally. The aggregation of these services uniquely positions Medipass to provide an all-encompassing service, that is not matched by any other company, especially in the Italian market.

Medipass operates the following service models in Advanced Diagnostic Imaging, Cancer Treatment & Diagnostics and Nuclear Medicine/Radiotherapy:

- Fully Managed services: provision of equipment and services in addition to medical, technical, and admin personnel. Contract length is typically associated with the useful life of the equipment. Remuneration is based on the number of services (Scans) provided.

- Managed Equipment services ("MES"): This service model involves the long-term management of high-tech equipment and related maintenance services, which includes the initial supply and the periodic renewal of the equipment. Service contracts in this department usually last for a period over 15 years and is remunerated by means of a fixed fee.

- Diagnostic and specialist service outsourcing: This is provided to out-patients at 7 NHS-accredit public clinics, and one in the province of Florence. Of the NHS-accredited clinics, 5 are public while the remainder are privately owned.

KOS – Long Term Care Market Overview & Competitive Positioning

Italy

The LTC market is extremely fragmented in Italy. As the largest provider of LTC in Italy, KOS currently have around 5% market share. Other major players include Korian and Orpea, large French multinationals; however most of the market is dominated by government-owned nursing homes and small competitors with 4-8 facilities, leaving large scope for consolidation through acquisition. Demand for LTC in Italy substantially outstrips supply, with low bed vacancy rates across the country.

Due to the complex bureaucratic system surrounding healthcare in Italy, expansion is best achieved through acquisition rather than greenfield projects. The national government sets a framework regarding healthcare, but regional authorities are left to interpret and set their own rules, which municipal authorities are then in charge of interpreting and administering on a day to day basis. For this reason, expansion organically is extremely difficult and it is generally more cost-efficient to expand through acquiring smaller competitors. This creates a competitive advantage for KOS and other established players, as new entrants must navigate this difficult regulatory environment. Additionally, new entrants lack of scale means that they do not have access to the economies of scale necessary to lower costs and professionalise their service. Various private-equity backed attempts to enter the Italian LTC market have been launched, with these attempts being broadly unsuccessful. AXA and Ardian exited when selling KOS to CIR; and other attempts have been limited to buying <10 homes.

Most private LTC facilities are concentrated in the wealthier, more densely populated northern part of the country. Approximately 40% of KOS beds are in the Lombardy region, which has regulation that is particularly friendly to private providers. The margins in Northern Italy are higher than Southern Italy, a situation we expect to continue for the medium term. There is however the chance that margins may be compressed if these high margins attract investment, leading to supply outstripping the growth of demand. In this case expansion into other markets should be considered. Currently, expansion into Southern Italy is not favourable as the regulatory environment is unfriendly to private LTC providers and profitability is lower than many other regions in Europe. The financial benefits of scale in the LTC market are largely regional, and therefore an entry into Southern Italy would be comparable to expansion into another European country.

Italian Healthcare expenditure currently accounts for 8.8% of GDP, 12th in the EU27. Prior to 2019, expenditure had been steadily declining due to budgetary constraints, but saw a small 2% increase last year. Italy has the second-highest elderly population in the world, with 23% of its population (approx.14mm) over 65, with this proportion expected to increase to 35% by 2050. In absolute terms, the UN estimate that this represents a 49% increase in total number of elderly Italians, from 9.6 million to 14.4 million. It is likely that as Italy's population ages, the government will be forced to increase healthcare spending, especially in the Long Term Care segment which will be a tailwind in KOS's favour. If Rome does not increase healthcare spending due to budgetary restrictions, it is unclear what would happen. Although conventional thinking would dictate a negative effect on demand for LTC, some research suggests the negative effect on overall health of the elderly population would lead to higher demand for LTC. Additionally, as care homes are in many cases an inexpensive substitute to acute hospital care, the government may favour LTC spending as a cost cutting measure.

The revenue structure of KOS's Italian LTC business is roughly 50% from the government and 50% from private sources. The National Health Service pays KOS for caring for patients, while the National Institute of

Social Security also provides elderly who require LTC with a monthly allowance of €520. The remainder of revenue is funded privately. The cash allowance structure of public healthcare expenditure, which our target market receives regardless of whether they live in LTC or in the general community, means that KOS directly compete with home care alternatives, such as children caring for parents at home (where they receive an additional benefit scheme), or live-in carers, typically from Eastern Europe and working illegally. This means Italian LTC has an effective cap on prices, above which they will lose customers to these alternatives.

Germany

KOS expanded into the German LTC market in 2019, acquiring the Charleston Group from EQT. Charleston has 4000 beds in total, representing approximately 0.5% of the total German market. The German market is even more fragmented than Italy, with the biggest private player Korian taking 3.2% market share. Therefore, as in Italy, there is large scope for consolidation.

Expansion is achieved through acquisition due to the bureaucratic system and staff shortages surrounding healthcare in Germany. Similar to Italy, the national government sets a framework regarding healthcare, but there is large scope for federal authorities to interpret and set their own rules; while even municipal authorities who are in charge of daily oversight of LTC homes have scope to vary regional rules. In addition, there are various different bureaucracies that manage various facets of the LTC process. For this reason, greenfield expansion is difficult, and it is generally more cost-efficient to expand through acquiring smaller competitors. This may prove to be a challenge for KOS due to their currently small market share, however management's acquisition policy in Italy shows a track record of value accretive growth.

German healthcare expenditure accounts for 11.2% of GDP, the highest in the EU27, and has been rising steadily at above the rate of inflation. Data on LTC-specific expenditure is lacking, but the best estimates place it at about 2% of GDP, and increasing to 2.5% by 2050. 21% of the population (approx. 17mm) are currently over 65, and this number is expected to rise to 22mm by 2035. LTC in Germany is financed through a compulsory long-term care insurance (LTCI). The LTCI fund provides elders with benefits for either home care or LTC homes. 80% of eligible beneficiaries choose cash benefits. Besides LTCI, the elderly also receive a compulsory old-age provision social insurance.

The Government strongly regulates costs in private LTC within Germany. Private providers negotiate contracts with regional LTCI and social security administration officials to be able to receive LTCI-subsidised patients, which form 90% of the market. These contracts are typically administered on a Cost-plus basis, which limits the margins possible. The official stance of the LTCI is to encourage home care, however 27% of people in need of long-term care are currently living in LTC homes, and this is expected to rise due to the acute shortage of staff making individual care infeasible.

The acute staffing shortages in German medical care, with nearly 50,000 unfilled jobs, is constraint on supply within Germany. Whilst it is relatively simple for new entrants to build LTC facilities and negotiate contracts with the LTCI and social security programmes, it is extremely difficult to recruit sufficiently trained staff to operate these homes. This is an industry-wide issue that the government has long attempted to remedy. Plans include incentivising nursing degrees, and attracting migrant professionals from Southern and Eastern Europe, however these have had limited success and shortages remain. Therefore the future of the German LTC market will be characterised by growing demand, and relatively fixed supply. KOS and its competitors will look to consolidate the market through acquisition, yet it must be noted that the regionally specific economies of scale of LTC allows for more than one provider to make returns above their cost of capital.

KOS – Medipass Market Overview & Competitive Positioning

Medipass generates around 13% of overall KOS revenue. This business is not viewed as a core holding, and may be divested in the future, however it has performed strongly and currently generates operating margins in line with LTC. Across all sectors of Medipass operations there are relatively high barriers to entry due to the cost of the technology used, as well as the high level of clinical, technical, and operational know-how required. Medipass also benefits from economies of scale resulting from volumes of purchases far beyond the range of any single provider, enabling the company to offer clients highly competitive rates for outsourcing. There are currently, however, sufficient providers to maintain a relatively competitive environment. The high returns of the industry additionally may attract new entrants to further challenge Medipass.

Italy

Medipass operates in over 17 different centres in Italy. These are located in the Regions of Veneto, Emiglia Romana, Lazio, Lombardy, Piedmont, and Tuscany, among others. All different service models are offered, with Italy being the only location were diagnostic services outsourcing is currently provided. Italy is the main market for Medipass' business with fully managed services primarily driving revenue. "MES" is still in its initial phase of implementation in Italy, being manly applied to building new hospitals on a project finance basis - it does not contribute significantly to revenue at this time.

The success of the fully managed services business model, which has reached a good level of penetration in the country (according to KOS), is due to several different factors. The growth of high-tech equipment for cancer treatment and diagnostic imaging, alongside recent medical and scientific advancements, has brought a need to update technology at a rapid pace. Italy's current stock of this medical equipment is older than the European average, compounding the need for the provision of these services. Additionally, the particular success of the fully managed model can partially be attributed to existing regulations, which restrict capital expenditures and the hiring of qualified personnel by public sector operators. The combination of these factors forms the basis for further market growth and development in this sector.

Other large players in this space include Alliance Medical and Fora, the latter of which focuses more on laboratory analysis services. The current general market trend for hi-tech and hospital services is a move towards the creation of large conglomerates. These are being driven by financial and industrial investors, with the aim of establishing pan-European groups. Medipass is, however, the only operator in Italy with a significant presence in the cancer treatment and diagnosis segment which focuses on radiotherapy services.

The broader healthcare market in Europe is reflective of the conditions previously highlighted in Italy, with high barriers of entry and a large tendency towards conglomeration. Medipass themselves have acquired another healthcare company "Ecomedica" as recently as 2018. Due to the relatively high number of providers across Europe, and little product differentiation, leading incumbents require a proven track record and a provision of equipment which is state of the art and of the highest quality. Other key factors to maintain market power in this space are; the ability to keep up with new technologies, and disciplined compliance with stringent government regulations. Medipass meets these criteria and have thus been successful in their targeted market. Tailwinds present in Europe lead to a conservative estimate of 7% CAGR through 2025 in the cancer and diagnostic imaging sector. This growth is primarily driven by Europe's ageing population, alongside an increase in production and effectiveness of new technology.

Given that Medipass continue their emphasis on market leading technology and quality of service, they are well positioned to maintain and incrementally expand their current market positioning. While the trend towards conglomeration is strong, Medipass offer a differentiated service that is currently unrivalled by these large companies. Given the strong tailwinds for the sector, alongside their strong current position, we expect to see moderate growth in the Italian portion of Medipass for foreseeable future, with limiting factors being the introduction of large international conglomerates and the reportedly high level of penetration already achieved.

U.K

Through its subsidiary, Medipass Healthcare LTD, Medipass provides "MES" services to three different medical centres in the U.K. These are located in Leeds, Belfast, and Norfolk. The operations in the U.K date back to major project finance initiatives in the 1990s.

Following recent periods of tapered growth, demand for "MES" services has begun to grow once again in the U.K.. This is partially due to new government policies designed to encourage and simplify technological outsourcing, including the new code on competitive tendering which provides clearer regulation of public private partnerships. The U.K has generally seen the greatest spread of outsourced technology and hi-tech services in regard to advanced diagnostic imaging and cancer treatment in the region. It does, however, present a very competitive landscape, with Medipass healthcare's main competitors including CPUK, InHealth, MESL, UME, and OEMs. The country's rapidly aging population is in line with that of general European trends and suggests that demand for these services will continue to expand for the foreseeable future. While Medipass has had a presence in the country for over two decades, the fact that it has only been able to secure contracts with three institutions, as well as the presence of high levels of local and international competition, does not make it clear as to whether we can reasonably expect continued growth within the U.K..

India

Medipass' Indian subsidiary, Claearmedi Healthcare LTD, is one of the leading providers of fully managed services in India. Having been founded in 2011, it currently holds 15 service contracts with private healthcare facilities all across India, mainly in the areas of radiotherapy and cancer care.

The Asia-Pacific region is currently the fastest growing market for diagnostic imaging and cancer diagnosis (and imaging) in the world, India being one of the main areas propelling the rapid increase in demand. India's population of 1.35 billion makes it the third largest market for medical devices in Asia. Additionally, its people are shifting towards more sedentary lifestyles and incorporating worsening eating habits. The latter coupled with its also aging population makes it a prime market for cancer diagnosis and imaging, which seems primed to continue to grow at a fast pace. The total market for diagnostic and medical equipment totalled $3.5 billion in 2014, with recent estimates forecasting a CAGR of 15% to 2023. Importantly, most of this growth will be channelled towards the private sector due to severe shortages in hospital beds, growing demands for quality services driven by greater spending power, the growth of medical tourism, and increased penetration by private medical insurance companies. Despite widespread public infrastructure, a higher proportion of health services are provided by the private sector, with around 20% of hospital beds owned by private companies. The market for the type of outsourcing services provided my Medipass is growing quickly, both in public and private hospitals, due to a shortage of adequate technology and skilled staff to operate medical technology.

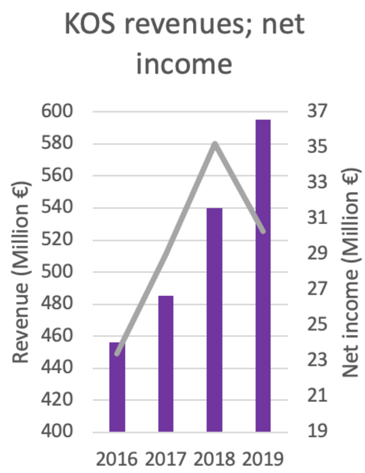
KOS reports that many of the hospitals to which they are currently providing services have the only equipment available to an area totalling millions of patients. From an operational standpoint, personnel costs and costs of services are very low, allowing for high margins. All of these factors combined present an ideal opportunity for continued expansion and growth in the Indian market for fully managed services and outsourcing. At present, there are no other well-established operators offering outsourced management of hi-tech services on a fully managed or “MES” basis within India.

It is our belief that Medipass is well positioned to benefit from this growing sector of the Indian healthcare market. As disclosed by management, Medipass is likely the first and leading player within India, a position we feel should be utilised as a launching point for further expansion. However, due to the regulatory complexity of India and capital intensity of this non-core business, officers of CIR have indicated that KOS is unlikely to dedicate further capital to India.

KOS - Financials

KOS as a group is growing steadily, with revenue 6.3% (CAGR) between 2016 and 2019, and operating margin expansion from 10.6% to 12.3% due to the growth of the high-margin LTC and diagnostic businesses.

Reflecting the increasing margins, net income grew faster than revenue between 2016 and 2018, before falling in 2019 largely due to the €4.9mm of non-amortized Charleston acquisition costs. Excluding these costs, which more accurately represents the underlying business operations, net income marginally grew to €35.2mm.



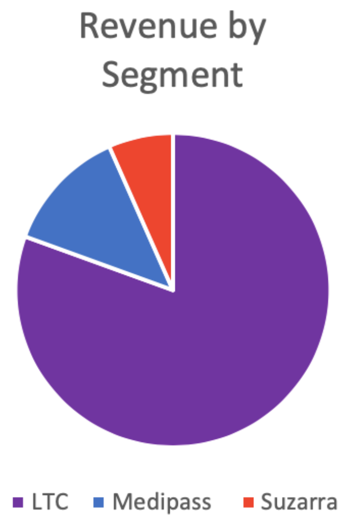
LTC

Financial weighting and performance

LTC accounts for ≈80% of KOS revenue, and is likely to increase in the medium term as Charleston revenues come online. From 2016 through to 2019, revenue grew at a CAGR of 8%, of which 95% was due to acquisitions and 5% due to organic growth.

Italian operating margins have remained constant at ≈13% p.a., the number used in our valuation.

Management forecasts 2020 revenues of €175mm, with an operating margin of ≈6%, due to the different pricing structures of the markets.

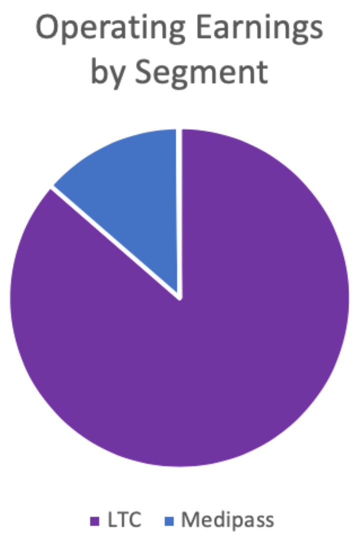


Medipass

Financial weighting and performance

Due to the relatively small size of its operations in regard to other sectors of activity of KOS, the assets pertaining to Medipass only account for 15% of the total assets of the company, as well as just under 3% of its total liabilities.

From 2016 through to 2019, Medipass' revenue grew at an annual compound rate of 21.5%, with growth tapering slightly towards the latter years. At the end of 2019, revenues grew by 12%, representing the lowest growth rate in the past 4 years.

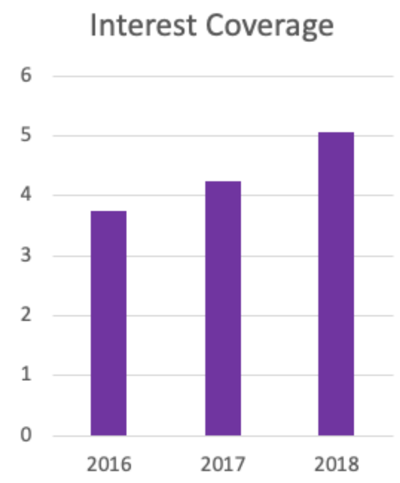


Medipass' operating margin (EBIT) fell 5% YoY in 2019, despite its EBITDA increasing by 11%. The reasons why depreciation and amortization costs were so significant in 2019 are unclear, however, this likely reflects purchases of equipment not yet utilised.

Debt Position

KOS, without IFRS 16 lease adjustments, has a net debt position of €368mm (Q1 2020). This level of debt is comfortable for KOS, representing a debt to equity ratio of around 1, and allowing the company to cover interest expenses 5 times from operating earnings.

There is no reason to be concerned about the liquidity or solvency of KOS. The business generates sufficient earnings to easily cover it debt servicing costs. These earnings are derived from healthcare and therefore they are largely protected from shocks in the business cycle.



Sogefi – Company Overview

Market Data	
TKR	BIT:SO
Price (£)	0.82
12M High	1.77
12M Low	0.64
Shares (M)	120.12
Mkt Cap (M)	98

Leadership Team

Chief Executive Officer:
Mauro Fenzi

Chairman:
Monica Mondardini

CFO:
Yann Albrand

Group Strategy Director:
Vincent Roque

Acquired by CIR (previously Cofide) in 1981, Sogefi is an international automotive parts manufacturer headquartered in Milan, Italy. The company operates 42 plants divided between the three key business segments: Air and cooling (7), suspension (21), and filtration systems (7). Sogefi supplies parts to almost all major car manufacturers and is currently active in Europe, North America, South America and Asia, with a recent expansion into Morocco. The majority of revenue however, is generated in Sogefi's European base.

The company is currently facing serious, and possibly insurmountable issues. There is very little differentiation between the products of Sogefi and its competitors, leaving the company at the mercy of market conditions. In 2019, rising steel prices and an unfavourable broad automotive industry significantly depressed profit margins such that they struggled to break even, returning only a 0.2% net income margin. In the context of the current Covid-19 crisis, Sogefi's high debt load and fixed cost base put the companies survival in serious jeopardy. Sogefi will likely be able to draw on enough short term liquidity to manage through the crisis, however its long term solvency is far from guaranteed as it faces mounting interest payments and a secular shift in the automotive industry away from some of its traditional product lines.

<u>Management</u>

The CEO of Sogefi, Mauro Fenzi, appointed in December 2019 has had little time to make any substantial impact on the performance of company. Whilst we recognise the experience that Mr Fenzi brings, previously leading the Fiat Chrysler subsidiary Comau, an external appointment following one of the worst years in Sogefi's history, and on the eve of a crisis, casts doubt on the strength of existing management. Mr Fenzi has a successful track record and we have no reason to believe that he is not competent of leading Sogefi, however he faces a significant challenge in navigating the coming years that will test his ability as the group's leader.

As Chief executive officer of CIR, Monica Mondardini chairs Sogefi's board of directors.

Sogefi - Business Segments

Suspension

Sogefi's suspension segment accounts for 37% of revenues. The performance of suspension in recent years illustrates the lack of product differentiation and therefore pricing power that Sogefi must contend with. The key cost within the suspension business, other than labour, is the price of steel and therefore the 30% increase in the price of steel between 2017 and 2018 severely affected the profitability of this segment. EBIT margin fell from 6.4% in 2017 to 2.1% in 2018 and has since fallen to 0.9% for 2019. These falls, largely due to the increased cost of steel, illustrate Sogefi suspension's inability to pass on costs to consumers due to the commoditised nature of the product they sell. With little sign of a reduction in competition, it is unlikely that this segment will return to previous margins without a significant fall in the price of steel.

Filtration

Sogefi's filtration segment accounts for 33% of revenues. The performance of this business is far more consistent than that of suspension, however it has seen stagnating revenue growth combined with a falling EBIT margin. This margin has been consistently around 4.5% of revenues, and whilst in 2019 this fell to 2.9%, the underlying business is stable and the decline can largely be attributed to costs associated with the opening of a new plant in Morocco aiming to supply the nation's growing automotive industry. The key concern for the filtration division is however the secular shift away from internal combustion engines (ICE) towards electrification of the drivetrain. The products manufactured by the filtration segment are largely only relevant for ICE's, and thus the long term viability of this business is highly questionable. Without substantial innovation it is unlikely that this segment will maintain its profitability in years to come.

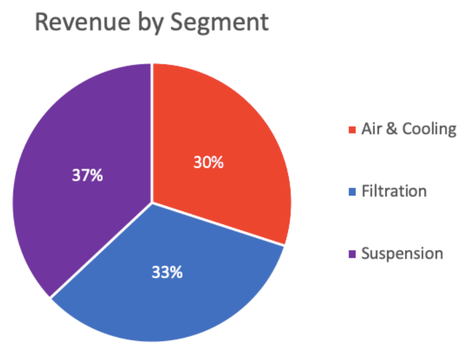
We believe that capital expenditures directed towards expansion of this division are not aligned with the long term interests of the business and its shareholders. Despite a relatively compelling business case for the opening of a plant in Morroco, Sogefi has limited resources to undertake capital expenditures and therefore investments must be directed towards long term viable products.

Air & Cooling

Sogefi's Air & Cooling segment accounts for the remaining 30% of revenue. This segment is the most promising for the long term health of Sogefi as it has already demonstrated its ability to adapt to the shift towards electric vehicles. The deals signed with both Mercedes and Renault-Nissan to supply parts to their electric vehicles beginning in 2021 are considerably more profitable than ICE contracts, with a per car value of €250 compared to the conventional €70, and demonstrate an ability to innovate in line with demands shifts. Additionally, Sogefi manufactures air and cooling components from plastic, and therefore this segment is not exposed to volatile commodity markets and thus unlikely to suffer the same margin swings as the suspension business.

EBIT margins have grown from 4.8% in 2016 to 5.7% in 2019, with the potential of taking a leading role in the profitable electric vehicle market offering hope of further margin expansion. The long term concern for this segment is that, as there isn't significant differentiation between competitors, profit will be driven away and the market will become commoditised.

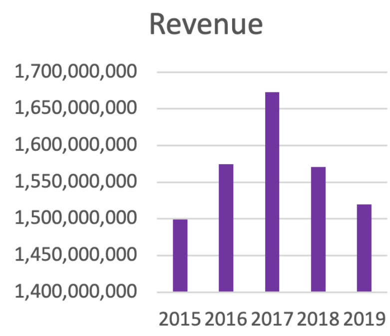
Sogefi - Financial Analysis



<u>Revenue</u>

Due to Sogefi's diversification of customers, and lack of significant pricing power, revenue tends to vary in line with changes in the overall automotive market. This market has faced two years of decline since 2017 and prior to Covid-19 was forecast to shrink a further 1% in 2020. In conjunction with Sogefi's exposure to the inflationary environment of Argentina, poor market conditions depressed 2019 revenues down 9% from their 2017 peak.

In 2020, Covid-19 has forced an effective shutdown of the automotive industry, leading to a 24% fall in Q1 2020 world production. European production alone fell almost 50% in March. Sogefi's 2020 revenues will therefore be significantly lower than those of 2019, with the revenues of 2021, and possibly even 2022, dependent on the speed of the automotive industry's recovery.



In the long term, Sogefi's revenues will be dictated by changes in the automotive market, and the company's ability to adapt to these. As demand shifts towards parts for electric vehicles, the filtration business is at high risk of becoming redundant, and without a strategic move away from 'at risk' product lines, the long term revenue outlook for Sogefi is seriously at threat.

The Air & Cooling segment's innovation and shifting alignment towards electric and hybrid drivetrains is a positive sign for the long term viability of Sogefi's revenue. The extent to which the share of overall revenue shifts towards this well positioned and relatively high margin segment, will likely be indicative of management's ability to position the company for the long run.

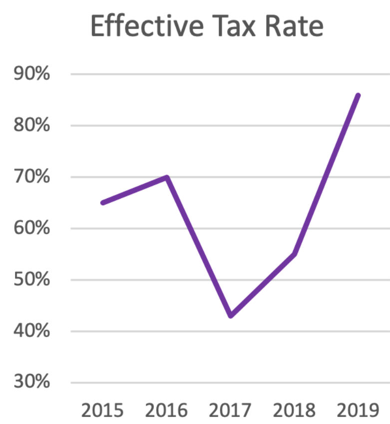
<u>Costs & Margins</u>

The majority of Sogefi's costs are the variable cost of goods sold. In 2019 this represented 70% of revenue, having fallen from 72% in 2015. Again, as Sogefi has little ability to pass on costs to customers, the gross margin achieved (Revenue – COGS) is largely dictated by shifts in the underlying cost of materials. This is outside the control of Sogefi, and therefore, as seen in the suspension division, an increase in material prices can substantially affect profitability.

Other operating costs, most of which are fixed in the short run, represented 27% of revenue in 2019. The fixed nature of these costs makes their impact on operating margin highly sensitive to changes in top line revenue.

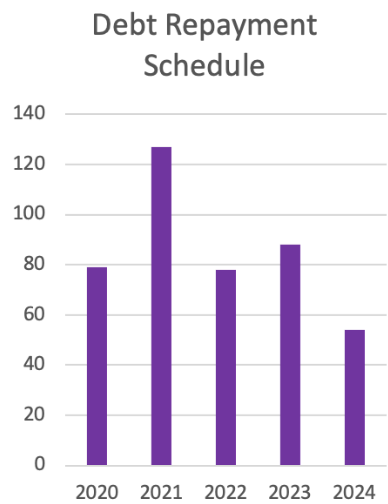
Tax

Sogefi’s taxation situation is highly irregular, with an effective tax rate consistently above 50% (85% in 2019). The company makes no clear reference to why this situation exists and thus we have no basis to expect it to end.



Debt

Sogefi’s balance sheet is highly troubled. The company’s debt to equity ratio is exceptionally high (5.1) in comparison to competitors such as Denso (0.54) and Magna International (1.3). Combined with a relatively high average cost of debt (*Financing Cost / Financial Debt Outstanding*) of 4.8%, Sogefi’s ability to pay its creditors is highly susceptible to declines in operating earnings. In 2019, these earnings only covered interest payments 1.7 times, which in a sector with such narrow margins indicates significant credit risk. Whilst the Italian government loan scheme, as well as existing credit facilities, will allow Sogefi sufficient liquidity to operate through the Covid-19 crisis, the inevitable increase in debt adds to the precarious credit position of the company. This crisis will certainly threaten the long term solvency of Sogefi, and will leave the company’s ability to pay its debts even more vulnerable to changes in business conditions.



Sogefi – Valuation

In light of the significant threat that Covid-19 poses to Sogefi's solvency, we have chosen to attribute Sogefi no value to the equity holders of CIR. Prior to this crisis, the company was highly levered and difficult market conditions were already threatening its ability to meet interest payments from operating income. Sogefi will certainly increase its debt position during 2020, and therefore the size of interest payments will grow, further increasing the risk of Sogefi failing to meet these obligations. The recovery of the automotive market in late 2020 into 2021 is dependent on the continued suppression of the Covid-19 virus and the resumption of global supply chains. If the market does not recover in sufficient time, Sogefi is at serious risk of defaulting on its debt obligations.

Sogefi faces two key challenges in its long term survival that skew Sogefi's long term distribution of outcomes towards bankruptcy. The first challenge is to generate enough income over the short to medium term to meet debt obligations. The management of Sogefi, other than through cost cutting measures, can have very little impact on achieving this goal as it requires the recovery of the overall automotive market, which itself is dependent on the effectiveness of international measures to suppress Covid-19. The second challenge is to protect long term earnings by adapting to the shifting demands of the automotive market. The Air & Cooling segment of Sogefi has had initial success in this, perhaps indicating that management is starting to position the company for the future, however the capital expenditures necessary to successfully implement this transition will be difficult to achieve whilst the company also faces solvency and liquidity issues.

Whilst we believe that the odds are against Sogefi providing any value to CIR shareholders, there is the possibility that management will turn around the company, leading it into a stable and profitable future. This scenario will most likely occur if a rapid recovery of the automotive market and a wave of pent up consumer demand give sufficient clearance from interest payments for management to reposition the company. This repositioning would most likely be a shift away from filtration, towards the Air & Cooling segment.

Conclusion: CIR – Valuation Methodology

As CIR is a holding company, its value is derived from the distributable free cash flows of its equity holdings. With this in mind, we approach valuation using a sum of the parts methodology in which we value KOS and Sogefi individually, before adjusting for the net cash balance of and operating expenses of CIR.

As we believe KOS has a long term competitive advantage, and therefore long term earnings growth potential, we use a discounted cash flow with conservative assumptions to reach the valuation for KOS.

Our base case model conservatively assumes that:
1) Sogefi has no value to CIR equity holders
2) Between 2020-2024 LTC revenue growth is 2.1%; operating margins are 13% and perpetual earnings growth is 3%.
3) Between 2020-2024 Medipass revenue growth is 5%; operating margins are 13% and perpetual growth is 3.5%
4) Suzzara sees no growth and has an operating margin of 1%
5) German LTC segment is worth 40% of Charleston acquisition value
6) In the long term, LTC will account for 75% of revenue; Medipass will account for 20% and Suzzara will account for 5%.
7) CIR maintains the value of its cash and non-core investment portfolio
8) CIR enjoys a 5% reduction in operating expenses from synergies realised through the Cofide-CIR(old) merger

Discussion of discount rate

The discount rate used for valuation of KOS is based upon the return that an investor would require to invest in a similarly risky security. We reject the use of the capital asset pricing model, due to its flawed use of variance as risk for long term investors as well as its inability to capture forward looking risk factors, choosing instead to construct a discount rate based a conservative appraisal of the quantitative and qualitative risk factors of KOS as follows:

Risk Free rate of Return	0.15%
Risk Premium for Equity Investment	4%
Risk Premium for Company Size	1%
Industry Specific Risk Premium	1.9%
Company Specific Risk Premium	2.9%
Discount Rate	**9.95%**

This discount rate is marginally higher than the CAPM methodology which yields a 9.6% cost of equity. A full breakdown of each of each assumption used to construct the discount rate can be found in the appendix.

Conclusion: CIR – Base Case Assumptions

Sogefi has no value to CIR equity holders:

As explained in the Sogefi section of this report, we conservatively believe this to be the most likely scenario. This is justified by concerns over Sogefi's long term solvency compounded by the risks that the growth of electric vehicles pose to a significant proportion of the company's product lines.

Between 2020-2024 LTC revenue growth is 2.1%; operating margins are 13% and perpetual earnings growth is 3%:

The short term revenue growth is based on the Italian government's forecasted healthcare spending increase. We are assuming that LTC continues to account for the same percentage of total healthcare spending, which is conservative given the ageing population and historical trends. Operating margins have been approximately 13% for many years. We see no reason why this would not continue, barring a significant exogenous change in regulations. Perpetually, we see earnings growing at 3% due to the strong tailwinds of an ageing population and a cultural shift towards acceptance of LTC. 3% growth is below the predicted 5% growth rate of over-65 population in Italy, hence we feel it is conservative.

Between 2020-2024 Medipass revenue growth is 5%; operating margins are 13% and perpetual growth is 3%:

The short term revenue growth is extremely conservative when considering the historical CAGR is >20%. However, considering growth has been slowing in the past years, and management has decided to not pursue expansion in the high-growth Indian market, we have decided to make this extremely conservative assumption. Operating margins have historically been approximately 13%, similar to LTC. Although there is more scope for economies of scale and margin expansion in the diagnostic business, we remain conservative and assume margins stay at 13%. In the long term, we assume that Medipass sees 3% earnings growth due to their first-mover advantage in this sector of healthcare with significant tailwinds, which has as yet seen limited commercial penetration.

Suzarra sees no growth and has an operating margin of 1%:

Due to Suzarra being a public hospital managed by a private company, KOS are limited in their possibilities for pricing and improvements. This has resulted in historical stagnation of revenue and we see no reason why this would not continue, resulting in our 0% earnings growth assumption for perpetuity. Similarly, operating margins have historically been around 1%, and we see no catalyst for change.

In the long term, LTC will account for 75% of revenue; Medipass will account for 20% and Suzarra will account for 5%:

We have assumed that LTC will account for 75% of revenue, lower than the current 80%, due to the rapid growth of Medipass. This assumption is only a rough figure so as to allow us to properly construct our valuation model. In actuality, as our perpetual growth expectations for LTC and Medipass are the same, their relative weightings are unimportant to the result of the valuation.

As we are predicting growth for LTC/Medipass but not for Suzarra, over time the revenue share Suzarra takes will tend towards 0%. We use 5% as an approximate weighted average of the perpetuity period.

German LTC segment is worth 40% Charleston acquisition value:

There is clearly great potential for KOS in the German market, however we have very little information with which to estimate its value to the company. Philosophically we are opposed to valuing unsubstantiated hope and therefore, despite strong prospects, we value the German LTC segment based on the price paid for the acquisition of Charleston. This is taken as 40% to approximate the value that is attributable to equity, rather than debt, holders.

CIR maintains the value of its cash and non-core investment portfolio:

Representing 75% of the market capitalisation, CIR's cash reserve is crucial to our valuation. To an outright buyer of CIR this cash would be fully extractable and therefore easy to value. However, as a minority interest, cash is not freely extractable and therefore its value is determined by how it is utilised by management. The core negative use of this would be if it were invested in Sogefi, in our opinion this would completely destroy its value. On balance however, we believe this is an unlikely course of action for management and it is far more likely that it will be returned to shareholders in the form of buybacks and dividends. As it is our belief that CIR is currently undervalued, buybacks would be value accretive, whilst increasing dividends would be value neutral. Additionally, CIR has indicated that it may invest further into the healthcare sector. The merits of such an action are dependent on the particulars of such an investment and thus it cannot be predicted to be anything but value neutral in advance.

Whilst it is our belief that cash will be used wisely by management, we do not have enough information to properly assign probabilities to each circumstance and therefore we take a conservative approximation of cash and non-core investments maintaining their current value.

CIR enjoys a 5% reduction in operating expenses from synergies realised through the Cofide-CIR(old) merger:

The combined operating costs of both CIR and Cofide was €15.5M in 2018, prior to the merger. This figure includes the payment of 2 board of directors and the duplication of some costs such as regulatory compliance. We therefore expect a synergy benefit from this merger, however as Cofide was only a shell of a company prior to the merger and only low paid directors will lose their board seats following the merger, we do not expect this to be particularly large, approximating this at around 5% cost reduction. This cost is then discounted back to present value.

Conclusion: CIR - Valuation Results

Base Case:

The aforementioned assumptions lead to a calculated intrinsic value in the conservative base case of **€0.56** per share, suggesting 27% upside in the share price of CIR. This valuation broken down by its constituent parts below:

Component	Total Equity Value (to CIR)	Per Share
Cash	€383,100,000	€0.30
Non-Core Investments	€59,550,000	€0.05
KOS	€427,602,000	€0.33
Sogefi	-	€0.00
CIR operating expense	(€148,290,00)	(€0.12)
Total	**€721,963,000**	**€0.56**

The valuation of KOS implies a 19.4 P/E ratio. This is lower than its rivals Korian (19.5) and Orpea (27.0).

We believe that this base case estimation is highly conservative and is below the likely intrinsic value of CIR. The choices that we made to value cash at only its book value, despite being relatively certain that it will be deployed in buybacks in a value accretive manner, alongside our decision to not even value Sogefi at scrap value contribute to our confidence in the conservatism of this result. The ability of these assumptions to return a significant margin of safety in valuation lead us to be highly confident in our assertion that the shares of CIR are currently mispriced by the market. At the very least we believe that CIR shares are worth the base case €0.56, but believe that their value is likely closer to our bull case valuation of €0.61.

A sensitivity analysis is performed on the results of the base case by adjusting our assumptions.

Worst Case Scenario:

The worst case scenario does not attempt to forecast the effects of any particular set of events, but instead aims to give an indication of CIR's value in the event that the standard of management and underlying business conditions were to severely decline.

Our worst case scenario assumes that management waste 50% of cash in value destroying ventures, such as further investments into Sogefi. It further assumes that KOS fails to create any long term earnings growth in LTC or Medipass, whilst also losing significant pricing power. This is reflected in our model as 0% perpetual earnings growth and operating margins of 5% in both businesses.

Best Case Scenario:

Our best case scenario assumes that KOS is able to further the pricing power of both its LTC and Medipass businesses whilst also enhancing its long term growth through capitalising on the tailwinds of an ageing population with a higher cancer risk. Additionally, we assume that CIR management is able to create further value with its cash reserve. These assumptions are reflected in our model as 4% perpetual earnings growth and operating margins of 15% in both LTC and Medipass, alongside a 20% increase in the value of cash held by CIR.

SCENARIO	INTRINSIC VALUE	MARGIN OF SAFETY
Worst case	€0.20	-55%
Bear	€0.36	-17%
Base	€0.56	27%
Bull	€0.61	39%
Best case	€0.72	64%

Discount Rate = 9.95%

The assumptions of the Bear and Bull case are given in the appendix.

Key Risks to Investment

We strongly believe in the merits of our investment into CIR, however we are aware of our own inability to foresee all future developments within the company and therefore recognise the potential risks of this investment. The realisation of these risks would materially affect the intrinsic value of CIR and thus would require DUSIF to re-assess its position in the company.

Sogefi

As we have not assigned Sogefi any value in our analysis of CIR, the key risks of Sogefi to our investment are that ownership of the company will cost CIR equity holders.

CIR allocates capital to Sogefi
If CIR were to dedicate further capital to Sogefi we believe this would destroy value for shareholders. The most pressing concern is not that CIR invests further into Sogefi, which itself would be a harmful action, but that the historical importance of Sogefi to the De Benedetti family and the potential reputational risk of Sogefi failing leads CIR to prop up the company if it faces bankruptcy. Regardless of whether this is achieved through debt, which would be unlikely to be paid back, or equity, which would offer a negative return, this action would certainly destroy value in CIR.

CIR is deemed to have mismanaged Sogefi and is deemed liable in the case of bankruptcy
CIR does not guarantee the debts of Sogefi, and therefore in the case that it declares bankruptcy, under normal circumstances, CIR is not liable for its debts. However, under Italian bankruptcy law, the corporate veil can be pierced if the involvement of a controlling entity, such as CIR, is deemed to have mismanaged its holding. The likelihood of this is remote as the law requires a creditor to prove that the involvement of the CIR has been a net negative for Sogefi. CIR has been Sogefi's controlling shareholder since 1981, during which time the company has grown from a small regional manufacturer to a global player and thus it would be difficult to argue that CIR's involvement has on balance harmed Sogefi. Unless there has been illegal activity from CIR, which we have no reason to believe is the case, it is unlikely that CIR could be made to pay Sogefi's debts.

Kos

Large percentage of revenues from governments
62% of KOS revenues are directly/indirectly financed by various governments, particularly in the LTC market. This leaves KOS exposed to the whims of politicians. Large –scale regulatory changes such as massively increased investment in government-owned LTC homes, could effectively block KOS out of much of its revenues. Governmental reform could also remove the regulatory barriers to entry could also significantly affect the competitive landscape. This concern is also extended to Medipass which currently holds various equipment management contracts with public hospitals in Italy. Any significant cut-back in government spending and in their desire to replace outdated imaging equipment could hinder Medipass' performance. Medipass is also exposed to any significant change in Indian government policy which reduces the feasibility and incentive for foreign firms to supply and operate medical equipment in the country.

Capital inflows significantly increase LTC supply
The LTC market in Europe has seen significant inflows of investment in recent years. There is a possibility that supply rapidly increases, eroding at KOSs' margins and occupancy rates. Medipass, while exposed to a lesser extent than the LTC business due to its high specialized and technical nature, is still susceptible to larger suppliers entering the market individually or through consolidation. While Medipass currently provides clients cheaper total cost solutions, there is a risk of a larger company leveraging greater economies of scale to supply machinery equipment at a cheaper cost.

Barriers to entry for new entrants also prevent KOS expanding rapidly
The markets that KOS has so far preferred to expand into have significant barriers of entry, largely due to regulatory complexity. Although this protects the company from large players buying up all the supply, it also limits KOS from using CIR's significant cash pile to expand at a more rapid rate.
Expansion into new markets may not pan out as expected.

CIR – Holding level

Management does not protect minority interests
As the prominent shareholders, the De Benedetti brothers have a high level of influence over the direction of CIR. The largest risk to this investment is that this family interest forces the company towards decisions that are privately beneficial, be that financially or otherwise, to the De Benedetti family but not to minority interests. This directly relates to the risk of CIR allocating capital to Sogefi, which could occur due to the De Benedetti's historical association with the company, or the reputational risks the family may face if the company is allowed to fail. Other such risks would be the improper appointment and pay of family members and friends.

Management improperly allocate cash
A significant proportion of our valuation Is based upon the assumption that CIR's net cash balance is worth its book value to shareholders. Whilst we believe management have the will to allocate this capital effectively, there is the risk that they fail to do so. Examples of such decisions would be an allocation of capital to Sogefi, or other non-value accretive equity investments that destroy shareholder value.

Appendix - Management

CIR management

We believe that chairman Rodolfo De Benedetti and CEO Monica Mondardini are capable of creating value for minority shareholders. Rodolfo De Benedetti, along with his brothers Carlo and Eduardo, is the controlling shareholder of CIR, holding 30% of the company and 45% of voting rights. The De Benedetti brothers have demonstrated their alignment with minority interests through their recent support of the CIR-Cofide merger in 2019 and responsible sale of the GEDI media group. Prior to joining GEDI as CEO in 2009, Monica Mondardini had a successful career during which she led the Spanish insurer Generali, focussing on acquiring and integrating local insurers. We believe that in her role as CEO of CIR, Mondardini is competent and capable of creating value for minority interests.

KOS Management

C.I.R dominates most of the positions at K.O.S, with a majority of the management and board of directors' positions being occupied by officials with affiliations to them. F2i also has some representation, mainly with the Chairman Carlo Michellini. Throughout management there is a solid background of Corporate finance (M&A/V.C) specialists, as well as medical experts from reputable academic backgrounds. We believe therefore that management has a strong indication of the latest medical technology advancements and the state of the craft.

The managing director of KOS Giuseppe Vailati Venturi was a founding member of KOS in 2004, at that point in the role of corporate development manager of CIR. He has led KOS since 2007, a period in which the company has grown through a successful acquisition policy from a regional player to the Italian market leader in long term care. We are confident in Venturi's leadership, his successful track record and long tenure with KOS lead us to believe he is more than capable of successfully leading the company for the foreseeable future.

In fact, the majority of KOS management positions have been very stable and their occupants have held long tenures. This leads to a very senior managerial room, which is highly beneficial in a sector demanding intimate knowledge of regulatory systems. Given the age and seniority of this management team, it is unlikely that it will remain unchanged over the next decade, which could potentially destabilise the business. We believe however that there is sufficient experience in more junior management staff to ensure continuity.

The company implements stock option plans in order to provide incentives to directors and employees. Personnel expenses include stock options. The fees of the members of the Boards of Directors of the KOS Group companies amounted to €2.1mm (€1.6mm in 2017). Gross remuneration of the key managers totaled €1.9mm in 2018 (€1.9mm in 2017). As Kos itself is not publicly traded they do not disclose renumeration details on an individual basis.

Sogefi - Management

The CEO of Sogefi, Mauro Fenzi, appointed in December 2019 has had little time to make any substantial impact on the performance of company. Whilst we recognise the experience that Mr Fenzi brings, previously leading the Fiat Chrysler subsidiary Comau, an external appointment following one of the worst years in Sogefi's history, and on the eve of a crisis, casts doubt on the strength of existing management. Mr Fenzi has a successful track record and we have no reason to believe that he is not competent of leading

Sogefi, however he faces a significant challenge in navigating the coming years that will test his ability as the group's leader.

As Chief executive officer of CIR, Monica Mondardini chairs Sogefi's board of directors.

Appendix – Valuation Assumptions

Discount Rate

Risk Free rate of Return	**0.15%**
Risk Premium for Equity Investment	4%
Risk Premium for Company Size	1%
Industry Specific Risk Premium	1.9%
Company Specific Risk Premium	2.9%
Discount Rate	**9.95%**

Risk free rate
The return on a 3 month US treasury bill rate, 0.15%.

Risk Premium for Equity Investment
The historical average difference between equity returns and the risk free rate.

Risk Premium for Company Size
This is a subjective measure of risk that we apply due to the small size of KOS.

Industry Specific Risk Premium
This is a subjective measure of risk that reflects the specific risk exposure of the healthcare sector. 1.9% is comparatively low to other sectors, reflecting its defensive nature.

Company Specific Risk Premium
This is a measure that reflects our subjective judgement KOS's exposure to the below risk factors.

Risk Factor	Factor Value [0 - 10]	Weight	Weighted Factor, %
Revenue growth	1	10.00%	0.10%
Financial risk	2	10.00%	0.20%
Operations risk	3	10.00%	0.30%
Profitability	2	10.00%	0.20%
Customer concentration	3	10.00%	0.30%
Product concentration	4	10.00%	0.40%
Market concentration	3	10.00%	0.30%
Nature of market competition	5	10.00%	0.50%
Quality of management team	3	10.00%	0.30%
Quality of staff	3	10.00%	0.30%
Company-specific risk premium:			**2.90%**

Valuation Cases

We alter the base case in the following ways to test the sensitivity of our assumptions and simulate a range of outcomes.

Worst Case Scenario:
- Management waste 50% of Cash
- LTC & Medipass have no long term earnings growth
- LTC & Medipass operating margins shrink to 5%

Bear Case Scenario
- Management waste 25% of Cash
- LTC & Medipass have no long term earnings growth
- LTC & Medipass operating margins shrink to 10%

Bull Case Scenario
- Cash is worth 100% of book value
- LTC & Medipass have 3.5% long term earnings growth
- LTC & Medipass operating margins expand to 15%

Best Case Scenario:
- Management grow the value of cash 20%
- LTC & Medipass have 4% long term earnings growth
- LTC & Medipass operating margins grow to 15%