



P.S. Kopper's dog "Pop", 1898. Detail/ manipulated. By Peder Severin Krøyer, one of the 5 legends in paint 16.  
This image belongs to the Skagens Museum.

# SKAGEN Focus

## Status Report May 2016

The art of common sense



# Summary – May 2016

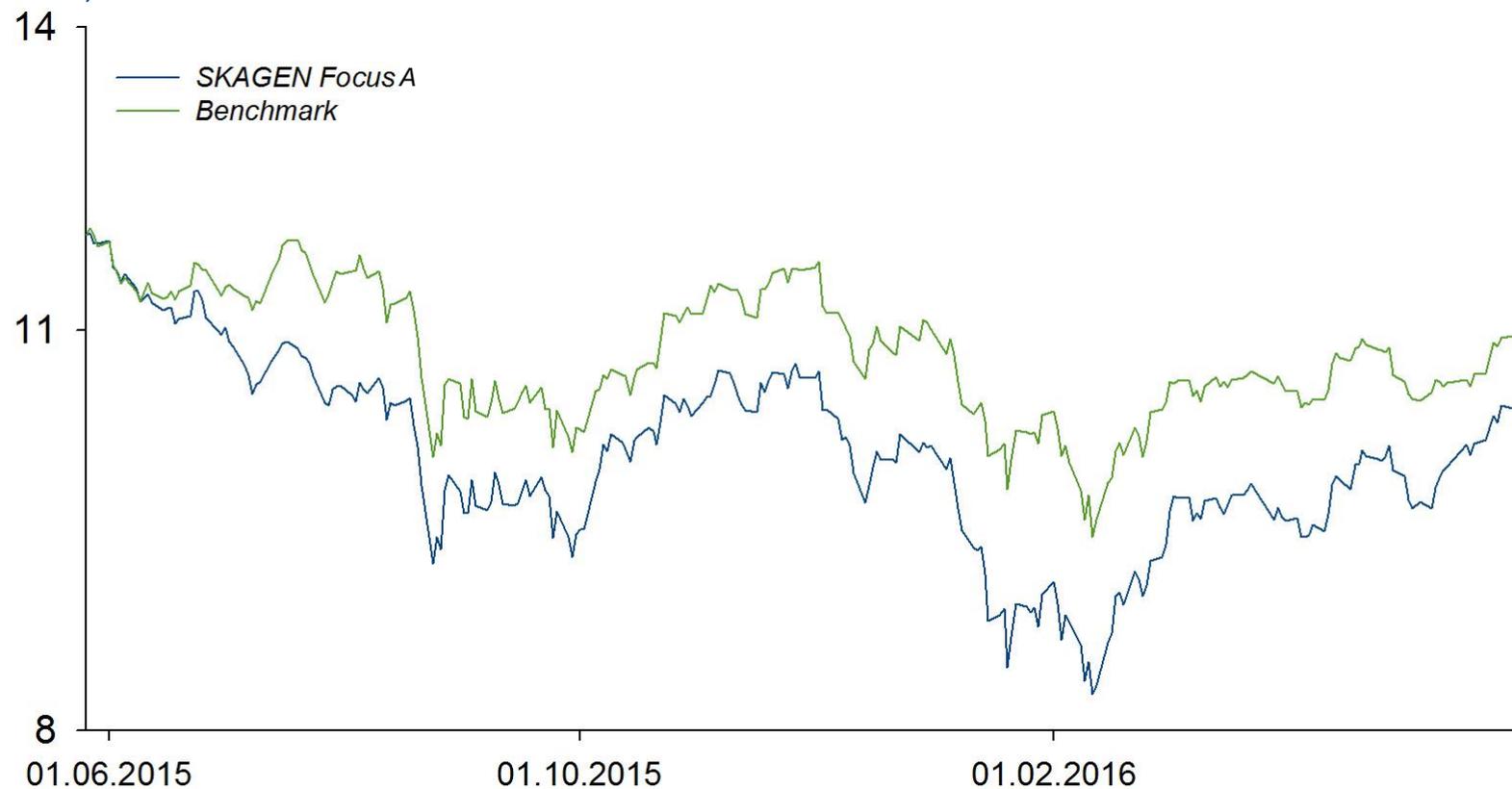
- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.
- The target number of positions is 30-35 and the top ten positions should constitute 40-50% of the portfolio. At the end of the month, the fund holds 35 positions, and the top ten positions account for 44% of the portfolio. The cash position is 6%.
- SKAGEN Focus\* was up 4.7% in the month (in EUR) while global equity markets (measured as MSCI AC World) gained 3.2% in May (in EUR). In 2016 so far, the fund is up 2.7% while global equity markets have fallen 0.5%.
- Haitai Confectionary & Foods, JBS and AIG were the strongest contributors to the fund's performance in May measured as absolute contribution in NOK. Rentech, Fila Korea and First Quantum were the main detractors during the month.
- We entered into 3 new positions, Haitai Confectionary & Foods, Philips Lighting and Teva Pharmaceutical of which two were IPOs. We exited Pan American Silver at very profitable levels and exited Haitai after a short but exceptionally strong price appreciation run.
- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap\*\* positions constitute 24% of the fund, while mid-cap and large-cap positions account for 34% and 42%, respectively, of the invested portfolio. These figures may vary meaningfully over time.

\* Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

\*\* Small-cap defined as market cap below USD 2bn, Large-cap more than USD 10bn.

# Results, May 2016

EUR, net of fees



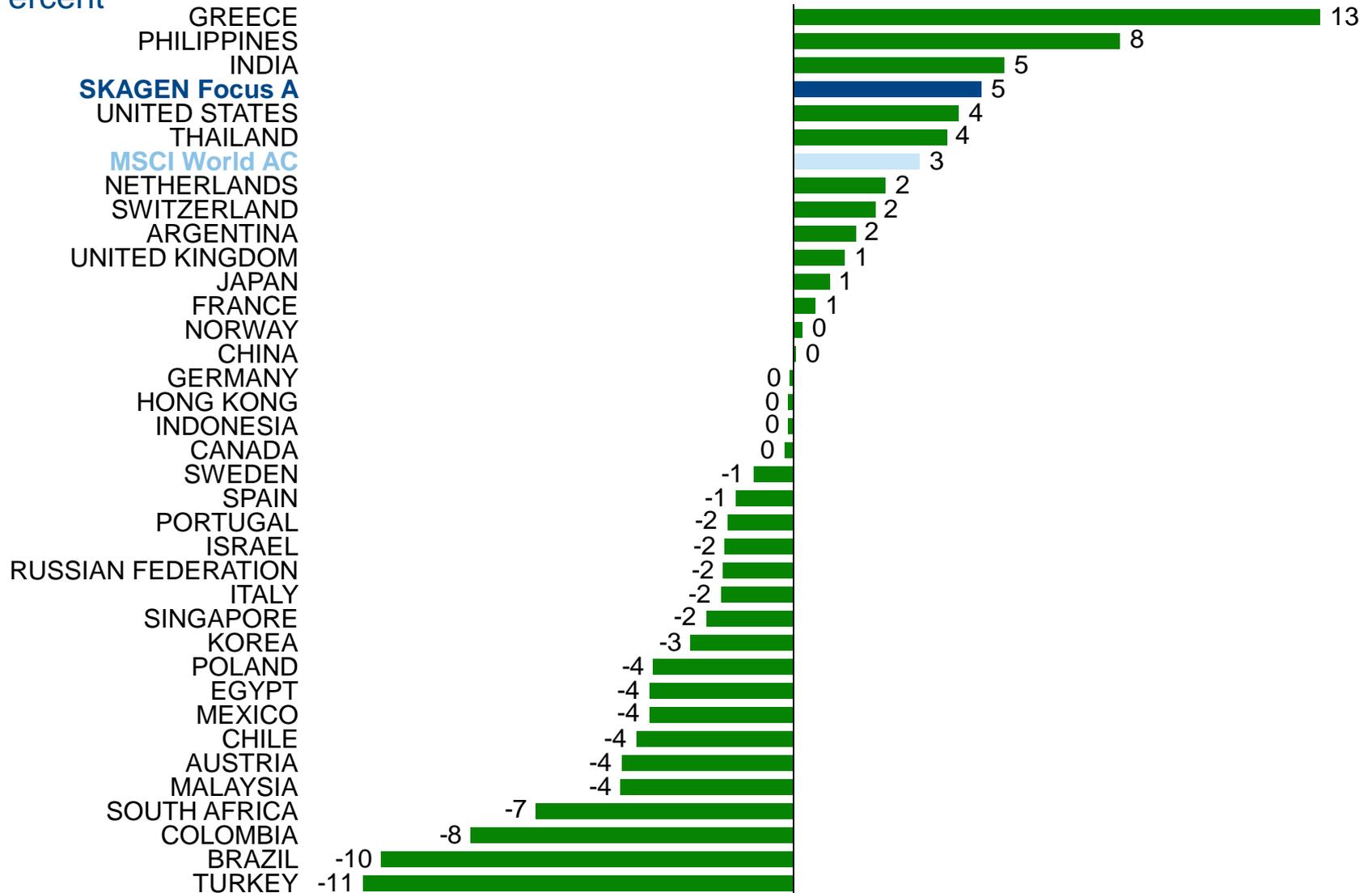
	May	QTD	YTD	Since inception*
SKAGEN Focus A	4,7%	8,7%	2,7%	-13,2%
MSCI AC	3,2%	4,0%	-0,5%	-7,7%
Excess return	1,6%	4,7%	3,2%	-5,5%

Note: All returns beyond 12 months are annualised (geometric return)

\* Inception date: 31 October 2012

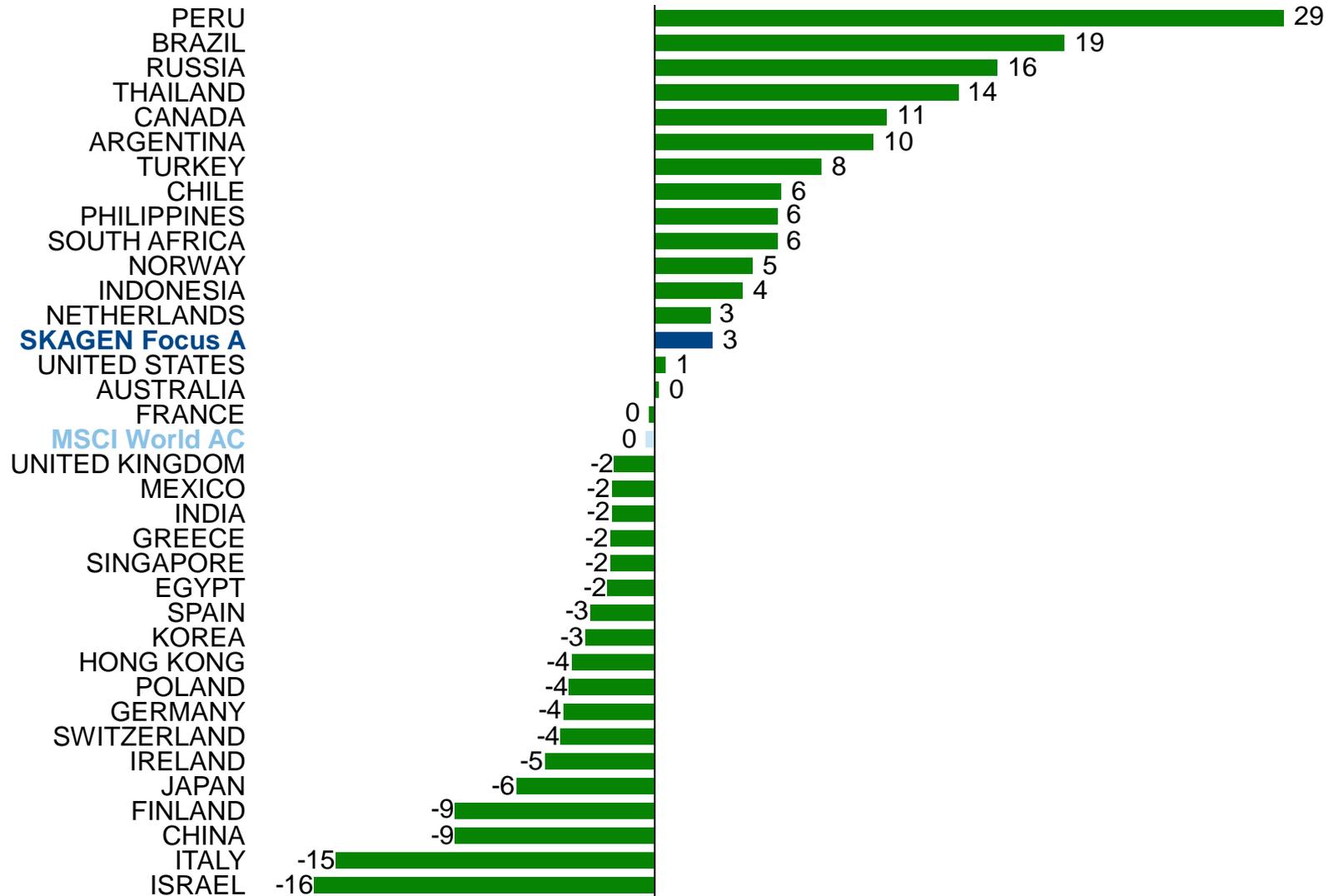
# Markets in May 2016 in EUR (%)

Percent



# Markets 2016 YTD in EUR (%)

Percent



# Main contributors MTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Haitai Confectionery & Foods Co Ltd	16 036
Jbs SA	7 050
American International Group I	6 615
AirAsia BHD	5 918
Infineon Technologies AG	4 421

**Value Creation MTD (NOK MM):**

## Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
Rentech Inc	-5 562
Fila Korea Ltd	-3 182
First Quantum Minerals Ltd	-2 446
South32 Ltd	-2 115
Pan American Silver Corp	-1 309

**62**

*NB: Contribution to absolute return*

# Main contributors QTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Haitai Confectionery & Foods Co Ltd	15 971
Pan American Silver Corp	8 070
AirAsia BHD	6 368
Omega Protein Corp	6 089
American International Group I	5 930

**Value Creation QTD (NOK MM):**

## Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
China Telecom Corp Ltd	-3 807
GCL-Poly Energy Holdings Ltd	-2 808
Magforce AG	-2 128
Fila Korea Ltd	-1 733
Aryzta AG	-1 276

**82**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK (000)</i>
Pan American Silver Corp	23 180
AirAsia BHD	16 365
Haitai Confectionery & Foods Co Ltd	15 971
First Quantum Minerals Ltd	9 006
South32 Ltd	8 211

**Value Creation YTD (NOK MM):**

## Largest negative contributors

<i>Company</i>	<i>NOK (000)</i>
American International Group I	-9 876
Aryzta AG	-8 653
SK Hynix Inc	-7 869
Citizens Financial Group Inc	-7 344
Uniqa Insurance Group AG	-6 191

**8**

*NB: Contribution to absolute return*

# Most important changes Q1 2016

## Holdings increased

Q1

Pilgrim's Pride Corp	(New)
Alphabet Inc	(New)
Massimo Zanetti Beverage Group SpA	(New)
Samsung SDI Co Ltd	(New)
FFP	(New)
Jbs SA	
Omega Protein Corp	
Infineon Technologies AG	
Aryzta AG	
Stock Spirits Group Plc	
Aercap Holdings NV	
Solazyme Inc	
Schaeffler AG	
AirAsia BHD	
Fourlis Holdings SA	

Q1

## Holdings reduced

Sandisk Corp	(Out)
Uniqo Insurance Group AG	(Out)
Komatsu Ltd	(Out)
Pan American Silver Corp	
Ubiquiti Networks Inc	
Carlsberg A/S	
Fila Korea Ltd	
Aercap Holdings NV	
First Quantum Minerals Ltd	
South32 Ltd	
CIT Group Inc	

# Most important changes Q2 2016

## Holdings increased

Q2

Teva Pharmaceutical Industries	(New)
Philips Lighting NV	(New)
Haitai Confectionery & Foods	(New)
Softbank Group Corp	
Infineon Technologies AG	
Omega Protein Corp	
Jbs SA	
Rentech Inc	
Solazyme Inc	
Pilgrim's Pride Corp	
Aryzta AG	
Jenoptik AG	
Schaeffler AG	
FFP	
TerraVia Holdings Inc	
First Quantum Minerals Ltd	
Massimo Zanetti Beverage Group SpA	

Q2

## Holdings reduced

Pan American Silver Corp	(Out)
Haitai Confectionery & Foods	(Out)
SK Hynix Inc	
AirAsia BHD	
Ubiquiti Networks Inc	
Carlsberg A/S	
Jbs SA	
Omega Protein Corp	
Pilgrim's Pride Corp	
Citizens Financial Group Inc	
First Quantum Minerals Ltd	
Schaeffler AG	

## Top 10 positions in SKAGEN Focus

	Price	P/E 2016e	P/E 2017e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	57,88	14,3	10,3	0,7	90	55 %	7,2%
Infineon Technologies AG	13,48	18,9	16,5	3,2	20	48 %	5,2%
Softbank Group Corp	6 228,00	12,4	9,9	2,7	9 600	54 %	4,7%
Jbs SA*	10,00	10,3	5,3	1,2	22	120 %	4,5%
SBI Holdings Inc	1 157,00	8,9	8,2	0,6	3000	159 %	4,2%
Jenoptik AG	14,33	16,4	15,0	1,9	20	40 %	3,8%
Omega Protein Corp	19,74	11,4	10,8	1,4	30	52 %	3,8%
Citizens Financial Group Inc	23,55	13,0	11,3	0,6	35	49 %	3,6%
Carlsberg AS-B	645,00	21,4	19,1	2,2	822	27 %	3,5%
China Telecom Corp Ltd	3,62	15,3	13,2	1,0	8	121 %	3,4%
<b>Top 10 positions</b>		<b>13,3</b>	<b>10,4</b>	<b>1,1</b>		<b>71,6%</b>	<b>43,9%</b>
<b>Total Equity (35 positions)</b>							<b>93,9 %</b>
<b>Cash</b>							<b>6,1 %</b>
<b>Total Portfolio</b>							<b>100,0%</b>

\* JBS is the main owner of Pilgrim's Pride, which is a 2.6% position in the fund. These two positions should be viewed as one, with a total weight of 7.1%.

# Holdings increased and decreased during May 2016

## Key buys

- **Haitai Confectionery & Foods (NEW):** Korea-based snack-maker Haitai Confectionery and Foods made a roaring entry on the stock exchange during the month. We participated in the IPO, which was massively oversubscribed, and the shares more than doubled a few days into the listing. The equity reached our price target during the month and was sold out.
- **Philips Lighting (NEW):** Failing a private sale of the company, Royal Philips pursued an IPO with the appropriately-named ticker, LIGHT. We think investors have an overly negative view on conventional lighting and may be underestimating the growth in LED in the mid-term. Fact sheet attached.
- **Teva Pharmaceutical (NEW):** We started to do build up a position in the Israeli drug-maker Teva after the stock got beaten down to very attractive levels.

## Key sells

- **Pan American Silver (OUT)** -The stock has more than doubled in the year and hit our price target as silver prices have normalised in combination with strong production numbers.
- **AirAsia** - following a substantial rebound of the share price and strong operational metrics, we reduced the position size into strength.
- **Ubiquiti Networks** – the share price has approached our price target and the position size was reduced.

# Key earnings releases and corporate news, May 2016

## JBS (4.5% weight)

**Investment case update:** Brazil-based JBS has transformed itself from a mid-sized local beef producer to one of the largest food companies in the world since its IPO in 2007. Today it has a leading global market share position in beef, poultry (through 76% owned Pilgrim's Pride in the US) and pork. The Q116 results were on the weak side with overall EBITDA falling by 22%, primarily driven by weakness in JBS' US Beef segment but the remaining business segments performed according to expectations. Net income was dragged into negative territory by the USDBRL hedge position (BRL -4.0bn net of the USD debt benefits). The company announced a major reduction in its derivative position which is clearly positive as the markets have been concerned that this position is elevated. The company presented a corporate restructuring plan including a listing of its assets in the US, which has been a catalyst for the investment case. The main idea is to split the company into two: (1) JBS Foods International (JFI) which will hold all the foreign assets and JBS Foods and (2) JBS Brazil which will hold the current JBS Mercosul. Shareholders will receive shares in the two companies with an option to trade additional shares for JFI. JFI will be listed on the NYSE while JBS Brazil will continue to trade in Brazil. If JFI traded at a 10-15% EV/EBITDA discount to US-listed peer Tyson, the overall equity value for holders of JBS would still be in the range of our price target of BRL 22 (current price BRL 11). The shares rose 21% on the announcement. JBS has been trading at depressed multiples of around 4x EV/EBITDA following indirect connections to corruption allegations and worries over the substantial currency derivative position.

### Fact

In Q116 net revenues amounted to BRL 43.9bn (up 30% over last year partly driven by acquisitions) while EBITDA fell to BRL 2.1bn from BRL 2.7bn last year (-22%). The company stated plans to list its assets in the US.

## Carlsberg (3.5% weight)

### Investment case update

The core of the Danish brewer Carlsberg's investment case is that it is a stable earner with sub-par profitability to peers in the process of being improved. The 1Q 2016 trading update shows that the value management is working. Volumes were down 2%, but the price/mix (selling more expensive craft beer, etc.) was positive 4%, so revenue grew 2%. Simplicity initiatives with the lay-off of 2000 office workers and a reduction of almost 1000 SKUs (store keeping units) will be visible in the 2Q 2016 earnings release in August.

### Fact

The main elements of the 1Q 2016 trading update (only sales and volumes, no earnings) were as follows: Organic revenue growth 2%, price/mix contributed 4% so volumes down 2%. Volume in line with long-term beer trend. Western Europe had 3% lower sales, 3% positive from price/mix, so volumes down 6%. Eastern Europe had 20% revenue growth, 12% price/mix impact and 6% volume growth. In DKK, revenues declined 2% due to currency. Asia had 5% revenue growth driven by 5% price/mix and flattish volumes. Focus on value management in a triangular balance between market share, gross margin and earnings. The strategy plan 'SAIL '22' is going as planned, but earnings details will only be available in August 2016. Guidance reiterated at 'low single-digit growth in operating profit' and 'reduction of net debt'

# Key earnings releases and corporate news, May 2016 (cont.)

## Infineon (5.2% weight)

**Investment case update:** Infineon is a German semiconductor manufacturer founded in 1999, when the semiconductor operations of the parent company Siemens AG were spun off. The company produces semiconductors and systems solutions and operates in four different segments; Automotive (40% of sales), Industrial power control (20% of sales); Power management and multimarket (25% of sales); and Chip, Card and Security (15% of sales). The company reported Q216 numbers which included revenues of EUR 1.6bn, up 4% from last quarter and 9% compared to last year. Revenue growth was mainly driven by the automotive segment (12% YoY) and the Industrial Power Control segment (10% YoY). Overall segment result margin expanded by 110bps, from the same quarter last year, to a margin level of 14.2%, driven by expansion in all segments except PMM, which remained flat and still above group average. Net income increased by 18.5% compared to last quarter, largely as a result of a positive impact from the reduction of deferred tax liabilities. The market reacted negatively to the adjusted guidance for sales growth and margins that was issued by the company due to a change in the underlying exchange rate assumption. Following the USD weakness, the underlying EUR/USD rate for the full year was changed from 1.10 to 1.15, leading to full-year sales growth guidance of 12% (previously 13%) and a segment result margin of 15-16% (previously 16%). The company continues to generate a healthy amount of cash (EUR 59m in the quarter), continues to be in a net cash position and has enviable market positions in the structural shift towards hybrid engines, auto electrification and the autonomous car (especially within radar applications) with explosive growth from increased semi-content in these areas. This has yet to be reflected in the share price of the company, trading at a discount to the higher quality industrial peer group.

### Fact

Infineon released Q216 sales of EUR 1.6bn and net income of EUR 180m. Segment result margin came in at 14.2%, a margin expansion of 110bps from the same quarter last year.

## Whiting Petroleum (0.8% weight)

### Investment case update

Whiting Petroleum is an independent E&P company primarily focused on on-shore oil properties in the US and Canada. The company raised capital in early 2015 after the poorly timed acquisition of Kodiak Oil and Gas in late 2014, funded mostly by debt. Following the capital raise, the company has struggled in the environment with the lower oil price. In Q116, net loss widened as revenues decreased over 45% over last year and overall production was down 15%. After cutting its capex earlier in the year, the guidance remains USD 500m for 2016 which would equal cash generated from operations for the year at current oil prices. While liquidity levels remain good, the balance sheet is still stretched with a net debt/EBITDA ratio of 5-6x based on 2016 consensus income numbers. The company managed to convert about USD 500m of bond debt (10% of total gross debt) into convertible debt. Non-core asset sales to bring down balance sheet leverage, which is one key to the investment case, is so far disappointing but we may see increased activity in this area following the recent rise in the oil price (WTI up from USD 27 to USD 44 since mid-February).

### Fact

The company reported a net loss of USD 174m in the quarter compared to a loss of USD 40m a year ago. Production in the quarter totalled 13.4 MMBOE, 87% crude oil/natural gas liquids, which was a 15% decrease over last year.

# Key earnings releases and corporate news, May 2016 (cont.)

**AIG**  
(7.2% weight)

## **Investment case update**

The US multi-line insurer was bailed out by the US government following the financial crisis and has since then started a transformation process aiming at reaching peer-group profitability and exiting non-core assets. In Q116, the company reported an after tax operating income below most consensus estimates. The main deviation vs estimates was a negative impact resulting from market volatility and the company's decision to exit certain financial investments, mainly alternative investments/hedge funds. Fundamental underlying trends were however mostly positive, where P&C margins improved modestly. Normalised ROE increased 110 basis points to 8.9% over last year. The company also confirmed its goal to return USD 25bn (40% of market cap) to shareholders through 2017. In Q116 alone, they returned USD 4bn and repurchased USD 870m of common stock through May – at highly accretive levels below tangible book value. Activist investors, led by Carl Icahn, are still pressuring the company to split into three entities, and will most probably be represented on the board after the AGM. Key to the investment case is further improvement in the P&C combined ratio and establishment of a lower volatility asset-mix in its investment portfolio. The stock is trading at 0.8x book value with continued bright prospects for capital returns, and with a longer term ROE potential in line with the peer group, even in a non-split scenario.

## **Fact**

The company reported after-tax operating income of USD 773m compared to USD 1.7bn last year. USD 4.0bn was returned to shareholders in Q116. Book value at the end of the quarter was USD 78.3 /share.

**First Quantum**  
(1.5% weight)

**Investment case update:** First Quantum is a Canada-based mining and metals company. It has seven mines across the world. It produces copper (70%), nickel (20%), gold, zinc and platinum. It mainly operates mines in Zambia, Spain and Finland, Australia and Turkey. In Q116, the company achieved a record level of quarterly copper production for continuing operations. The all-in production cost per pound for copper and nickel fell substantially below levels over last year (copper USD 1.36) while the selling price per pound was USD 2.38 held up by the company sales hedge program. The sale of the Kevitsa mine to Boliden is on track for USD 712m and is expected to close before 1 June 2016. The company will cancel its UK listing due to the low liquidity to save costs. Despite lower commodity prices overall revenues rose 20%. In total, the company swung to a profit of USD 70m in Q116 vs. a loss over last year. With the recent asset sales and improving results, the risk of a covenant breach has decreased materially which has helped re-rate the stock, which has now doubled from its year-end levels. We see good opportunities for the company to further de-lever through its Panama assets, and an overall potential to double its copper production in the mid-term.

## **Fact**

In Q116 the company reported adjusted EBITDA of USD 269m which is up sharply from last year (USD 134m), due to increased production. Revenue increased by 20% to USD 720m in Q116. The company stated that “material uncertainty regarding Company's ability to meet the net debt/EBITDA ratio covenant has been removed over the next 12 months”.

# Key earnings releases and corporate news, May 2016 (cont.)

## Jenoptik (3.8% weight)

**Investment case update:** Germany-based optoelectronics company Jenoptik's activities are divided into three segments: Laser & Optical Systems, Metrology and Defence & Civil Systems. The company started the year with a seasonally weaker, although quite solid, quarter showing both top line and margin improvements. In Q116, the company grew revenues by 8.5% over last year, with growth visible in all three segments due to higher demand from the energy and sensor system, optical systems and laser machines. Operating income grew 12%, due to margin expansion driven by lower costs and better mix. Continued strong cash flow generation enabled the company to further improve the financial position by reducing the net debt level (from EUR 44m to 33m). Order intake decreased 5% as there were some weakness in the Defence & Civil system segment. Management reiterated its full year guidance of sales between EUR 680-700m and an EBIT margin between 9-9.5%. Our position in the stock was reduced late last year into strength, but we still see substantial upside as the solid fundamentals gradually get priced in.

### Fact

Jenoptik reported Q116 revenue of EUR 158m, 8.5% over last year. EBITDA increased 5% to EUR 16.7m. Order intake decreased by 5%. Continued cash flow generation enabled further reduction of the company's net debt level to EUR 33m (from EUR 44m in Q415).

## AirAsia (2.3% weight)

**Investment case update:** Malaysian AirAsia is one of the largest low-cost carriers in Asia in terms of fleet size and passengers carried. The company owns interests in affiliates Thai AirAsia, Indonesia AirAsia and Philippines AirAsia. In Q116, revenue was up more than 30% driven mostly by passenger seat sales but also an increase in operating lease income. Aircraft fuel expenses fell 23% over last year as expensive hedges expired. Operating profit was up more than 120% on the back of these favourable developments. Net income was impacted by favourable movements in MYRUSD and FX was responsible for a swing of more than MYR 700m in the quarter. Results from associates grew substantially over last year driven mostly by the Thai unit. Stock was up more than 13% following the earnings release. Net gearing is trending down from elevated levels following the founders' injection of capital earlier in the year and stronger operating cash flow. There is still however major debt at 3.5x net debt to EBITDA, mostly in USD. Although operationally the company now seems to be executing strongly, the recent run-up in the shares has partly closed the valuation discount to fair value and to peers on EV/EBITDA basis. We have gradually been reducing the position size in the stock over the last few months.

### Fact

Q116 revenue was MYR 1699m (1296m last year). Operating profit was MYR 521m vs 236m from last year. The company saw average fuel price decline 29% from last year. Load factor increased to 85% (last year 75%). Passengers carried increased 17% Y/Y. Average fare was up 11% from last year.

# Key earnings releases and corporate news, May 2016 (cont.)

## Fourlis (1.1% weight)

### Investment case update

Greek Fourlis has two main business activities; they are the operator of IKEA stores in Greece, Bulgaria and Cyprus and also operate Intersport stores in Greece, Cyprus and Turkey. The company currently operates 7 IKEA stores (5 in Greece, one in Cyprus and one in Sofia, Bulgaria) with 5 pick-up points in Greece. In Q116, the group produced sales of EUR 92m in Q116 which was 4% higher over last year. EBITDA came in at EUR 3m vs. EUR 1m in Q115. In the IKEA segment sales grew 7% and contributed roughly 70% of the EBITDA. Intersport sales rose 4% over last year. Net debt widened to EUR 147m from EUR 125m but Q1 is a seasonally weak quarter. The company has several non-core assets, including land plots in Bulgaria (EUR 50-60m), that may be sold to take down debt in the mid-term. On an overall basis, the home furnishing market in Greece has lost more than 70% of its value since the peak of 2008 and currently sits at just 0.4-0.5% of GDP in Greece. We continue to believe that the company is seeing a slow but gradual improvement in the operating environment and is well positioned to generate substantially higher EBITDA in the mid-term.

### Fact

Fourlis released Q116 numbers where IKEA sales were up 7% to EUR 60m over last year while Intersport increased 4% to EUR 32m. Company EBITDA margin expanded to 3.3% from 1.2% from last year.

## Stock Spirits (1.9% weight)

### Statement issued by SKAGEN during May, ahead of Stock Spirits' AGM

At the upcoming AGM of Stock Spirits, SKAGEN AS has decided to vote for the addition of two independent directors to the board, as proposed by the Company's largest shareholder Western Gate.

Stock Spirits is a London-listed Central European spirits producer, whose main domain is the Polish market. The Company had its IPO at the end of 2013 and the share price has struggled ever since its peak in mid-2014. A tax duty increase in Poland during 2014 changed the business environment followed by increased competition resulting in a continuous market share loss for the Company, despite their portfolio of strong brands, good distribution and solid financial position. Poor third quarter results in 2015 and a further decline of the share price attracted new shareholders who have challenged the Buckinghamshire-based management team of Stock Spirits.

Western Gate Investments is the investment vehicle of Portuguese businessman Luis Amaral and the holding company has recently become the largest shareholder of Stock Spirits, owning close to 10 percent of the shares outstanding. We believe, on principle, that the largest shareholder of any company should have the right to board representation. In addition, being the main shareholder and chairman of Eurocash, one of the largest wholesale cash and carry operators in Poland, Luis Amaral brings with him a successful operational track record as well as industry and regional knowledge. During Western Gate Investments' assessment of Stock Spirits, they have identified a number of critical issues for the Company which are affecting their operational ability and cost efficiency. As a result, Western Gate Investments has requested an independent review of the current strategy by nominating two new directors to the board.

Given the lengthy period since the issues started with the duty increase in Poland, the loss of market share and management turmoil, we support the need for an immediate review of the current strategy in order to turn around the Company's core business. We support Western Gate's proposal of adding two independent directors to the board as we believe that this is a first and important step in the right direction for the Company.

# Key earnings releases and corporate news, May 2016 (cont.)

## AerCap (3.0% weight)

### Investment case update

AerCap is the largest independent aircraft lessor globally. It is also active within the engine leasing, trading and spare part sales/service of aircrafts. The company manages a fleet of 1300 aircrafts with a current order book of an additional 460 aircrafts. The company generated flat income over last year of USD 302m in the first quarter. Earnings per share were higher driven by the lower share count as the company repurchased 5.4m shares in the quarter. The active management of the fleet portfolio continues with 131 aircraft transactions in the quarter where they are essentially selling older aircrafts at gains. The company repeated guidance of USD 800m (11% of market cap) of excess capital for 2016 and said they would rather “buy their own planes by buying their own shares” rather than purchasing new aircrafts at this discounted stock valuation. As the debt/equity ratio continues to improve, the bonds were upgraded by S&P to investment grade during the quarter. The stock was weak on the day, but we think this was mostly due to confusion around 2016 earnings guidance and the fact that discussed levels did not take into account further potential sale of aircrafts. As the stock is trading at 6x P/E and about 65% of its liquidation value (USD 55/share), we think the stock offers a very compelling risk/reward.

### Fact

The company reported net income of USD 302m in Q116, compared with USD 300m for the same period in 2015. The fleet utilisation rate continues to be at high levels at 99.3% with 6.1 years average remaining contracted lease term at the end of the quarter.

## Massimo Zanetti (1.1% weight)

**Investment case update:** Massimo Zanetti, the Italian based coffee producer, operates in three main segments: Private Label (37% of sales), Mass market (37%) and Food service (26%). The company went public in June 2015 at a meaningfully higher share price than the current price, and is since then 67% family-controlled. In Q116, volumes grew 8% but the increase was offset by a decrease in average selling price, resulting in flat sales over last year. Positive volume growth was visible in all channels and specifically within capsules volumes, a strategically important area for the company, which grew by 29% driven by the US market. EBITDA increased 4% pressured by persistently high operating expenses in marketing and strategic efforts. The group announced a new organisational structure aligned around eight senior leadership positions reporting directly to the CEO. There was a significant improvement in free cash generation, in excess of EUR 7m during the quarter. Compared to the industry, we think the company has an outsized opportunity to increase margins in the mid-term, driven by a shift into the single serve segment and the launch of its first ever efficiency program. Forward free cash flow yield in the stock is potentially above 10% at these levels. The company confirmed guidance for the full year, implying an operating profit margin of just below 8%.

### Fact

In Q116, the group reported revenues of EUR 218m up 1% over last year. Total volume for the group increased by 8%. EBITDA came in at EUR 12.8m, up 4%.

# Key earnings releases and corporate news, May 2016 (cont.)

## Ubiquiti Networks (2.4% weight)

### Investment case update

US-based Ubiquiti Networks offers a broad portfolio of wireless networking products and solutions, which targets mainly rural areas not covered by the main enterprise solutions players. The company posted a strong set of results that confirmed the operational resilience which is currently questioned by the consensus, evidenced by the high short interest of free float in the stock (37% of float). Sales grew 3% over last quarter and 13% over last year. The company's gross margin expanded to a record level of 49.3%. The Enterprise segment, which now represents 42% of sales, was the main surprise on the upside, due to the strong demand for the company's new cycle of the UniFi AC WiFi product. The Enterprise segment's sales were up 73% over last year. The Service provider segment (58% of revenues) suffered from soft demand from the airMAX products, which traditionally drove the bulk of revenues, which resulted in sales declining 9% over last year. The net cash position continued to build in the quarter, now reaching USD 500m (16% of market cap). The high short interest in the stock reflects scepticism around the sustainability of the company's business model and worries over increased competition which we think are largely unfounded. Many of the perceived competitors, like Cisco, are not present in the company's market which focuses on internet services to rural areas.

### Fact

Total revenues for the third quarter grew 13% over last year to USD 167m. Gross margin continued to increase during the quarter to a new record of 49.3%. Enterprise Technology segment now represents 42% of sales and was up 73% over last year. Net cash position reached USD 500m, up 11%.

# Philips Lighting (LIGHT NA) EUR 20



## History, business model and source of investment case

- LIGHT is a spinoff from Royal Philips. Global market leader in the c. EUR 70bn lighting industry which is growing at c. 3% p.a.
- Total sales of EUR 7.5bn roughly split between 43% LED / 57% Conventional lighting (2015)
- Industry in the midst of a technology transition in which traditional lamps are being replaced by LED. As a result LED share of sales will be more than 50% in 2016.
- Business model is also changing from in-house production selling to distributors (old lamps) towards outsourced production and direct solution selling which includes professional services and long-term contracts (complete lighting solutions for buildings, etc.).
- ESG: No major issues identified

## Investment rationale

- Failing a private sale of the company, Royal Philips sold a c. 30% stake in the LIGHT IPO with the probable intention of placing the remaining stake in later stages after share price appreciation.
- The highly discounted price of the IPO (@ EV/Sales 0.5x) is explained by overly negative views among investors over the rapid fall-off in conventional lighting, lower free float and share overhang. Also, the complicated carve-out prior to the IPO left many confused about the company's financials, for instance its pension liability.
- Despite its scale, LIGHT is behind its major competitors on profitability and should be able to narrow this gap over time.
- LED business model is less capital intensive and company will thus invest below depreciation over the next couple of years which generates high free cash flow.

## Triggers

- Short term: Able to return to growth already in 2017 as the LED market is growing more than 10% p.a. despite further fall-off in conventional lighting.
- Mid term – Improve profitability within the LED business which is lagging competitors, especially in the US and thus be able to increase shareholder distribution.
- Long term – build portfolio of long-term contracts with municipalities and other players which gives good visibility.

## Risks

- LED industry is highly competitive and company has lost market share over the last couple of years in China and the US. Steep decline in lamps (conventional lighting) requires additional restructuring which clouds results.
- Company track record of M&A is poor and the strong cash flow over the next 24 months might make management trigger happy.

## Price target

- On flat sales of EUR 7.2bn (management guides 3% p.a.) and EBITA margin 7% (management guides 9-13%) company could be able to make c. EUR 3/share FCF which supports 50% upside (10x3 = target price EUR 30)

Key Figures		
Market cap	EUR	4.0bn
Net debt (cash)	EUR	0.9bn
Daily turnover	EUR	NA
No. of shares o/s		150m
P/cf 2016e		7x
P/cf 2017e		7x
P/BV trailing		1x
ROE 2016e		8%
Dividend yield 2016		0.0%
No of analysts with Sell/Hold		N:A

Team Focus June 2016

[www.lighting.philips.com](http://www.lighting.philips.com)

# 3U acid test



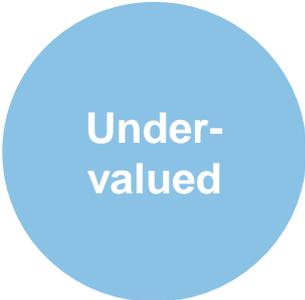
Unpopular

- Fear of a deteriorating light bulb market made a private sale of the spun-off Philips Lighting (Light) difficult and Royal Philips was more or less forced to take IPO road by selling 30% of the shares, and the remaining stake at a later stage.



Under-researched

- Complicated carve-out from Royal Philips makes for uncertainty around financial position and profitability.
- Uncertainty whether the company will be able to increase margins and grow the business.



Under-valued

- As Royal Philips intends to sell its remaining stake in Light at a later stage, it needed a successful IPO. Light thus placed at EV/sales 0.5x, Ev/ebit 10x trailing on low margins.
- With 7% ebita margin, company could be able to make EUR 3/share which supports target price of EUR 30/share.

# The largest companies in SKAGEN Focus

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AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep.

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Infineon Technologies AG designs, manufactures and markets semiconductors. The Company's products include power semiconductors, microcontrollers, security controllers, radio frequency products and sensors. Infineon markets its products to the automotive, industrial, communications, consumer and security electronics sectors.

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Japanese based Softbank is a telecom and internet conglomerate. The main assets of the company are Chinese online giant Alibaba Group (32% holding). Alibaba is the leading online commerce platform in China active both in retail and wholesale. US based telecom operator Sprint (80% ownership). US based Sprint provides wireless services in the US and is the third largest wireless network operator after Verizon and AT&T. Domestic telecoms (mainly Softbank Mobile, third largest telco in Japan after KDDI and NTT Docomo).

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Brazilian based JBS transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2. poultry and #3 pork producer by sales. The company operates in six main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazilian based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

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Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E\*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services: Building ecosystem to offer full range of financial services: SBI Securities: Dominant provider of online securities services in Japan #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitization), trading system and FX trading.

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# The largest companies in SKAGEN Focus



Jenoptik AG is a Germany-based company engaged in the field of optoelectronics. Its main activities are divided into three segments: the Laser & Optical Systems segment, the Metrology segment, the Defence & Civil Systems segment. The Laser & Optical Systems segment encompasses Laser and Material processing division, which is engaged in semiconductor materials and diode lasers. The Metrology Segment is engaged in manufacturing of high precision contact and non-contact metrology systems; and the Traffic Solutions division comprises products and solutions for road safety. The focus areas of the Defence & Civil Systems are military and civil vehicle, rail and aircraft equipment.



Omega Protein Corporation is a nutritional ingredient company and the United States that markets fish meal and fish oils from menhaden, an oily, virtually inedible fish found in the Gulf of Mexico and in the Atlantic Ocean. The Company fishes for its own source of raw material and without their own catch. They are the largest U.S. producer of Omega -3 fish oil and specialty fish meal products. These heart-healthy fish oils have experienced rapid growth as a dietary supplement and the fish meal is finding increasing usage nutritional food additives.



The company is one of the oldest financial firms in the US, with headquarters in Providence, Rhode Island, with its roots going back to 1828. It is today the 13th largest retail bank in the US with a footprint in New England, the Mid West and the Mid Atlantic, with over 1200 branches in 11 states. The company was listed in September 2014 after being spun off from the UK-based bank Royal Bank of Scotland (RBS).



Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.



China Telecom is full services integrated information service operator in China. The Company, along with its subsidiaries, is engaged in the provision of basic communications services, including wireline telecommunications services, mobile telecommunications services, value-added services, such as Internet access services, integrated information services and other related services within the service area of the Company. China Mobile, China Telecom and Unicom are the largest and dominant service providers in the country. China Telecom is the growing 2nd player behind China Mobile, in a maturing industry, yet with massive growth in data downloads.

# For more information please visit:

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Information on [SKAGEN Focus A](#) on our web pages

Unless otherwise stated, performance data relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and Prospectuses for all funds can be found on our website.

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