

We invest in winners. This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

GRENKE AG

Impressed by the robustness of their business model during the Lehman crisis, we presented GRENKE in our investment report for the first time in 2009. The financial services provider, however, has never seen a business year as challenging as 2020. First, the Covid-19 pandemic limited macroeconomic activity worldwide and GRENKE saw a 29% reduction in new business volume in its core leasing business. The decrease in 2009 was only 16%. At the same time, the loss ratio increased from 1.5% to 2.3%, compared to 1.9% during the Lehman crisis. The second challenge was a short seller's report published on 15 September 2020. Many of the serious allegations listed in that report were quickly refuted, and a number of expert opinions by auditors led to the dismissal of some important points. Personnel and organisational adjustments were made in response to expert criticism of internal auditing, money laundering prevention, compliance and governance. In addition, all outstanding franchise companies will be taken over and integrated into the GRENKE Group by 2022. The Company will master both challenges and, in our opinion, there will only be a short-term departure from the long-term, profitable growth trend that GRENKE intends to resume from 2022. The risk profile of the leasing portfolio was also managed profitably in 2020 with the help of the in-house scoring

model. As the pandemic fades, the loss ratio is expected to decline again, so that the DB2 margin, which was already expanded in 2020, will then have a positive impact on profitability. It has improved to 18.4%, underscoring the high-quality new business that comes with a lower default forecast. The DB2 of new business (i.e. the sum of the present values from the agreed cash flow of a lease, less individual contract costs and forecast risk costs, plus forecast service and liquidation income) fell to EUR 373 million due to the reduced purchase volume of EUR 2,028 million (table).

	2020	2019	2018	2017	2016
DB2 margin	18.4%	17.0%	17.5%	17.9%	16.7%
DB2, in millions of euro	373	485	421	353	266
EPS, in euro	1.89	2.89	2.78	2.31	2.29

Under IFRS 9, GRENKE is required to immediately recognise expenses for new contracts as well as claims settlement and risk provisioning. By contrast, earnings are mostly distributed in instalments over the average contract term of 48 months. Earnings per share should move strongly upwards again in the medium term on the back of the resumption of new business growth from 2022 and the excellent forecasting ability for the future claims ratio. As long-term investors, we should benefit from this development.

Sincerely yours



J. Henrik Muhle



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