



Lunch at the Club, March 17<sup>th</sup>, 2021, Hosted by Co/Investor Club

Growing quality franchise trading at 7x FY2020 after-tax earnings

Presented by Christian Olesen

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# About Olesen Value Fund L.P.

- Value investing philosophy: View stocks as fractional ownership interests in real businesses.
  - Invest when the price you pay is low relative to what you get (earnings, cash flow, assets, etc.).
- I define risk as permanent loss of capital (not stock price volatility)
- Focus on areas with significant market inefficiency:
  1. Overlooked/underfollowed small and micro cap companies
  2. Companies and industries that are out of favor due to non-rational factors (any market cap size)
  3. Special, complex or unusual situations and arbitrages
- Flexible investment mandate (geography, market cap size, etc.)
  - Can look for opportunities where other aren't.
  - Great opportunities arise in different, sometimes unexpected, places.

# Cambria Automobiles plc - Overview

- Ticker: CAMB (London Stock Exchange)
- Stock price: 65p      Market cap: £65 mil.
- Founded 15 years ago by CEO Mark Lavery
- 44 franchised auto dealerships in 29 locations across the UK, representing 19 different auto brands
- Mix of mass market, premium and luxury dealerships (majority of profits from premium and luxury)
- Growth through small acquisitions and new “greenfield” dealerships
- Franchise portfolio: 5 Jaguar, 5 Ford, 4 Aston Martin, 4 Land Rover, 3 Volvo, 3 Vauxhall (Opel), 3 Mazda, 2 Bentley, 2 Abarth, 2 Triumph (motorcycles), 2 Lamborghini, 1 Suzuki, 1 Alfa Romeo, 1 Citroen, 1 Jeep, 1 Peugeot, 1 McLaren, 1 Rolls-Royce.

# Business Model

- Auto manufacturers (OEMs) award franchise to sell and service new vehicles in a particular location/area
- OEM in control: can revoke franchise and establish sales targets and other standards
- OEM provides financing of new vehicle inventory
- Outsourcing retail function to franchisees is usually preferred by OEMs due to capital considerations, local expertise, real estate, co-location, operational complexity, and incentives.
- Excellence in operational execution is key in auto retailing
- Having a franchise is an opportunity for a dealership to earn a good profit if s/he performs well
- Cambria's FY 2019 (pre-pandemic) gross profit breakdown:
  - New vehicle sales: 27%
  - Used vehicle sales: 33%
  - Parts and service: 39%

# Industry Structure and Developments

- Highly fragmented
- OEMs increasingly stricter standards for dealership real estate appearance and brand representation
- Smaller, independent dealerships tend to underperform
- Declining aggregate number of dealerships
- Ongoing consolidation
- Smaller, less efficient operators close or get acquired
- M&A often orchestrated by OEMs behind the scenes

# Company History & Strategy

- Founded in 2006 by CEO Mark Lavery, then 44, with capital from private equity firm Promethean Investments
- Mark Lavery was previously COO of auto dealership group Reg Vardy
- Deployed initial capital and subsequent retained earnings in acquisitions of several small dealership groups
- Many acquisitions have been of underperforming or financially distressed firms
- Successful acquisition and operational turnaround strategy since inception
- Promethean Investments sold stake via public share listing in 2010
- Zero shares issued since initial capitalization in 2006.
- Mark Lavery retains 40% stake held since inception

# Company History & Strategy – Cont'd

- Very opportunistic and financially savvy acquisitions
- The firm is run much like a private company:
  - sharp focus on profitability
  - tight management of inventory and other business risks
  - nimble, entrepreneurial, opportunistic
  - conservative balance sheet
  - focus on building shareholder value over the long term
  - careful, financially savvy deployment of shareholders' money



# Company History & Strategy – Cont'd

- So far, 7 luxury dealership coups since 2018:
  - Luxury dealerships are typically highly profitable and worth a high multiple of tangible book value if well run
  - 5 luxury franchises awarded by OEMs for “greenfield” dealerships (1 McLaren, 2 Lamborghini, 2 Bentley)
  - 2 luxury dealerships acquired in swiftly executed bankrupt sale (1 Aston Martin, 1 Rolls-Royce)
  - Zero goodwill paid for these 7 potentially highly valuable franchises!
  - Earnings upside over next few years, as these dealerships mature
- New business initiatives, entrepreneurial value creation
  - SOGO Mobility, flexible short-term vehicle leasing solution for businesses
  - Real estate development

# Industry Threats

- Concern that cars will be sold purely online (disintermediation)
  - Need for physical retail locations could be reduced or eliminated
  - Tesla has pursued online sales and physical showrooms
  - Other OEMs: Some experiments. Online sales very low so far.
  - Trend has been greater emphasis by OEMs on physical retail customer experience
- Disintermediation is often conflated with electrification, driver-less technology and uberization, but these are for the most part not logically related to disintermediation.
- Very little evidence of disintermediation. Mostly a theoretical concern, but not unreasonable.
- Electric vehicles generate less service and parts revenue (this is a very profitable part of the business)

# Recent Developments

- Swift cost control following COVID lockdown
- Continued parts & service business activity
- Demand across new, used and service/parts affected
- Strong used car values
- Pre-tax earnings down 9.8% in FYE 8/31/2020
- Earnings up year-over-year first 5 months of FYE 8/31/2021

# Valuation & Investment Considerations

- Very low valuation multiples
  - 65p/share
  - 7.2x FY 2020 after-tax earnings (trailing P/E)
  - 6.6x FY 2019 after-tax earnings (price-to-pre-pandemic after-tax earnings)
  - 1.29x tangible book value (P/TBV)
  - <6x est. normalized earnings
- Key points:
  - Cambria's track record is excellent
  - Worth at least 12x pre-pandemic after-tax earnings (80% upside)
  - In addition: value continuously growing due to retained earnings
  - Good downside protection due to real estate assets
    - Tangible book value is 50p/share
    - Substantial real estate portfolio probably worth more than net book value

# Catalysts for Value Realization

- I expect Mark Lavery, 59, will likely sell the company in the next 5-10 years
  - Most logical way to monetize
  - Probably multiple potential buyers in this consolidating industry
  - High performing business, very attractive premium and luxury franchise portfolio, valuable real estate position → should be easy enough to sell the company
- Three paths to value realization:
  1. Stock price revalues to better reflect fundamentals
    - Industry back in favor (Brexit, GBP-EUR rate, new vehicle sales cycle, pandemic)
    - Investors better appreciate Cambria's outstanding characteristics
  2. Mark Lavery sells the company
    - Valuation multiple to reflect high quality assets and control premium
    - Probably high price, but several years from now
  3. Mark Lavery buys the company
    - Likely more modest premium
    - Shareholder-friendly UK corporate law and takeover rules → reasonable price is likely; hard to "steal" the company
    - Shorter holding period

Q & A

# Olesen Value Fund L.P. - Summary

- Disciplined value investing philosophy focused on compounding wealth in absolute terms as well as beating equity markets over the long run and avoiding permanent loss of capital.
- Long-biased portfolio, occasional short positions, no leverage, mostly in equities.
- Invest opportunistically across geographies, market caps and industries based on in-depth, bottom-up security analysis.
- 446% cumulative return net of fees since inception >12 years ago (14.9% annualized) vs. 301% (12.0% annualized) for MSCI All-Country World Index incl. dividends.
- 100% of Christian Olesen's own investable assets, excl. cash reserves, are invested in the fund.
- Fee option 1: 0.75% management fee + 20% of profits  
Fee option 2: 0.00% management fee + 25% of profits
- Focused portfolio, typically with 10-20 investments:
  - Due to the limited number of investments, I can perform more detailed research on every company I invest in than my competitors, which is essential to generating great returns.
  - Our capital is strictly focused where we can really generate significant outperformance.
- Focus on areas with significant market inefficiencies:
  1. Underfollowed small and micro cap companies
  2. Companies that are out of favor due to non-rational factors (any market cap)
  3. Special, complex or unusual situations and arbitrages

## Overview

Olesen Value Fund follows a disciplined value investing philosophy, which is applied opportunistically across geographies, market caps and industries. The portfolio is primarily invested in equities and has a long bias.

## Objectives

The fund is tailored to long-term, patient investors who seek to:

- (i) compound their wealth in absolute terms over the long run,
- (ii) minimize the risk of a large, permanent loss of capital, but tolerate price volatility,
- (iii) significantly outperform equity markets over the long run, and
- (iv) pay only for performance.

## Exceptional Alignment of Interests

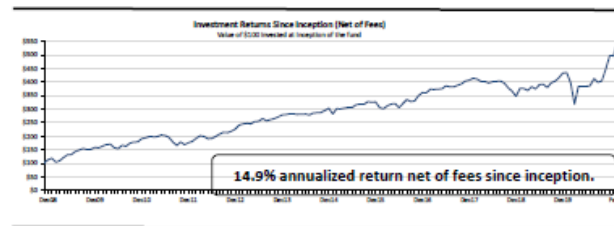
All of my own investable assets are invested in the fund, so I have an exceptionally powerful incentive to both generate great investment returns as well as protect our capital.

## Key Differentiators

The fund focuses on areas with significant market inefficiencies:

1. Underfollowed small and micro cap companies
2. Companies and industries that are out of favor due to irrational factors (any market cap)
3. Special, complex or unusual situations and arbitrages

The fund has a focused portfolio, typically with 10-20 investments. This enables me to perform more detailed and rigorous fundamental research on every company I invest in than my competitors. Due to the limited number of investments, **our portfolio is strictly focused where it can really generate significant outperformance.**



## Portfolio Breakdown, Feb 28, 2021



## Portfolio Exposure (% of net assets)

|                 |     |
|-----------------|-----|
| Long positions  | 94% |
| Short positions | -0% |
| Net exposure    | 94% |

## Monthly % Returns Net of Fees Since Inception

|      | Jan   | Feb    | Mar    | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | YTD    | MSCI  |
|------|-------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| 2021 | -0.04 | 10.08  |        |       |       |       |       |       |       |       |       |       | 10.03  | 2.99  |
| 2020 | 0.20  | -8.51  | -19.87 | 20.65 | -0.07 | -0.12 | 0.86  | 6.62  | -3.24 | 1.32  | 10.57 | 11.07 | 14.55  | 14.15 |
| 2019 | 8.46  | -0.21  | -1.88  | 3.76  | -2.14 | 4.23  | 0.29  | -3.00 | 4.44  | 1.61  | 3.14  | 4.28  | 24.82  | 25.89 |
| 2018 | 1.66  | -0.70  | -2.11  | -0.01 | -1.43 | 1.20  | 0.27  | 0.34  | -1.96 | -4.34 | -3.37 | -5.07 | -14.69 | -8.47 |
| 2017 | -0.27 | 3.68   | -0.26  | 0.37  | 0.25  | 3.01  | -0.89 | -0.15 | 1.55  | 1.37  | 2.57  | 0.94  | 12.75  | 19.79 |
| 2016 | -6.41 | -1.54  | 3.70   | 2.02  | 0.55  | -4.53 | 4.91  | 4.49  | -2.24 | 0.75  | 5.99  | 3.15  | 10.47  | 9.58  |
| 2015 | -6.89 | 6.64   | -0.18  | 0.94  | 0.91  | -0.01 | 3.07  | 0.93  | -0.39 | 3.18  | -0.77 | 0.55  | 7.70   | 1.40  |
| 2014 | 0.50  | 1.02   | -0.14  | -0.75 | 0.27  | 0.25  | -1.11 | 2.47  | 0.36  | 0.43  | 2.46  | 2.90  | 8.92   | 8.90  |
| 2013 | 6.38  | 2.02   | 0.76   | -0.78 | 3.50  | 0.33  | 3.91  | -2.94 | 1.47  | 1.45  | 2.48  | 2.65  | 23.06  | 26.45 |
| 2012 | 2.78  | 6.27   | 4.85   | -1.29 | -4.33 | 0.73  | 4.00  | 4.20  | 3.22  | -0.70 | 2.43  | 3.69  | 28.50  | 16.12 |
| 2011 | 1.82  | 2.42   | -0.46  | 0.13  | 3.22  | -1.06 | -3.11 | -8.81 | -7.16 | 7.84  | -5.72 | 4.33  | -7.63  | -7.15 |
| 2010 | -0.77 | 4.00   | 3.61   | 0.27  | -7.33 | -1.99 | 7.98  | -2.42 | 7.27  | 2.26  | 0.25  | 6.50  | 20.17  | 12.32 |
| 2009 | 5.03  | -12.41 | 5.03   | 11.12 | 8.02  | 0.81  | 8.43  | 3.55  | 3.90  | -2.58 | 0.58  | 4.51  | 39.68  | 31.14 |
| 2008 |       |        |        |       |       |       |       |       |       |       |       |       | 13.64  | 13.64 |
|      |       |        |        |       |       |       |       |       |       |       |       |       | 13.64  | 1.65  |

Disclaimer: Past performance may not be indicative of future results. Forward-looking statements do not, nor are they intended to, constitute a promise of actual results. There is no assurance that similar results will be achieved. The "MSCI World" or "MSCI" index referred to above refers to the MSCI All-Country World Index, Inc. (NYSE: EW). The returns for the fund are stated after subtraction of management and performance fees for a hypothetical investor who invested at the inception of the fund and has not made any subsequent contributions or withdrawals. While the fund generally does not use leverage, it may be used for arbitrage and other special situations, typically with offsetting short positions. In the discretion of the general partner, the fund may invest in restricted and/or illiquid securities for short sale. The fund normally hedges foreign currency risk of non-U.S. investments, generally using currency futures. This document does not constitute an offer to sell, or a solicitation of an offer to buy the limited partnership interests described herein. No such offer or solicitation will be made prior to the delivery of an offering memorandum and other materials relating to the matters mentioned herein. Before making an investment decision with respect to the partnership, potential investors are advised to read carefully the offering memorandum, limited partnership agreement and the related subscription documents, and to consult with their tax advisors, financial advisors and legal counsel. This document contains a preliminary summary of the purposes of the partnership and principal business terms of the partnership. The summary does not purport to be complete and is qualified in its entirety by reference to the more detailed discussion contained in the offering memorandum and the actual text of the limited partnership agreement. All investors and potential investors should be aware that an investment in a partnership of this nature is a speculative investment and may be subject to extreme volatility. The possibility for significant loss of principal exists. Investors should also be aware that investment in a limited partnership of this nature may have provisions limiting liquidity and the ability to exit the partnership. Investors should also be aware that the partnership may change significant management fees and performance fees. Investments in a limited partnership of this nature are for accredited and sophisticated investors only. No representation or warranty is made by Olesen Capital Management LLC, Olesen Value Fund LP LLC, or any other person (including any of its agents or representatives), as to the accuracy or completeness of the information contained herein. Only those particular representations and warranties which may be made in definitive agreements relating to the partnership, when, as and if executed, and subject to such limitations and restrictions as may be specified in such definitive agreements, shall have any legal effect. The information in this document was updated as of Feb 28, 2021. \* After \$1 min. \$200,000 in annual income (or \$100,000 together with spouse) or \$1 mil. in net worth (either individually or together with spouse).

## Historical Returns and Risk (Net of Fees)

|                            | Olesen_net | MSCI World |
|----------------------------|------------|------------|
| Cum. return since incep.   | 446%       | 301%       |
| Annual return since incep. | 14.9%      | 12.0%      |
| Avg. net exposure          | 82%        | 100%       |
| Max. drawdown              | 26.7%      | 21.1%      |

## Key Terms

Fee option 1: 0.75% mgmt. fee + 20% performance fee  
 Fee option 2: 0.00% mgmt. fee + 25% performance fee

|                         |                          |
|-------------------------|--------------------------|
| Redemptions             | Monthly (90 days notice) |
| Lock-up                 | None                     |
| Gate                    | None                     |
| Minimum investment      | None                     |
| Suitability requirement | Accredited investor*     |

## Service Providers

|               |                     |
|---------------|---------------------|
| Auditor       | BDO                 |
| Administrator | Apex Fund Services  |
| Custodian     | Interactive Brokers |
| Tax           | Wipfli              |
| Legal counsel | Sadis & Goldberg    |

## Christian Olesen, CFA, Fund Manager

Christian Olesen is the founder and portfolio manager of the fund. Prior to starting the fund, he was an analyst/trader at hedge fund Xaraf Management in Greenwich, CT, which was a sub-advisor to Paloma Partners, a multi-strategy hedge fund with approx. \$2 billion in AUM at the time. Previously, he was a Senior Research Associate at DebtTraders Group, a broker-dealer in New York, NY focusing on distressed debt. He started his career as an analyst at financial advisory firm Stern Stewart & Co. in New York, NY, which is best known for the EVA™ (Economic Value Added) concept. Christian grew up in Denmark and transferred to The Wharton School, University of Pennsylvania in 1998, where he earned a B.S. with concentrations in Finance and Accounting in 2000. He received the CFA (Chartered Financial Analyst) designation in 2004.

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