f3x capital

Investor Letter 21
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INTRO

When you open the newspaper, you have to assume that the world is still out of joint. It feels as if every day a new end-time scenario is being depicted. At this point, we do not want to repeat them in detail. But we do include a small list of current and potential crises to help contextualize portfolio decisions. Without any claim on completeness:

1. Risk of a Russian nuclear war
2. Interest rate hikes by central banks and potential liquidation cascades of leveraged positions. These include, for example: Tesla, crypto, startup funding
3. Sustained global inflation
4. Climate crisis
5. Global food shortages
6. Permanent disruption of global supply chains
7. Increasing polarization of society, driven by social media - symptomatic of this is the current re-mobilization of the right by Donald Trump (The Atlantic article)
8. Corona virus

Except for the unpredictable nuclear war, what all these crises have in common is that they hit the weakest hardest and, when the crisis is subsequently overcome, lead to a further concentration of power and wealth among the strongest.

Of course, "the strong" also suffer noticeably during a crisis. The crucial difference, however, is that they survive the crisis and have the opportunity to exploit the newly created freedom and opportunities, thereby automatically increasing their dominance.

For a portfolio manager, these observations translate into an adapted search pattern during this phase.

First, it is important to closely observe who the dominant players are in their respective sectors. This may not be possible to determine with complete precision, both in the hidden champion sector and in the case of growth companies. A company that was celebrated today as a niche champion may suddenly, in the eye of a crisis, no longer be so relevant to the market in which it operates. In the end, Aldi is a much more immediate competitor to Q-Commerce players, whereas a few months ago everybody was still thinking the game was *Gorillas* vs. *Flink*.

Performance of all share classes since inception

Year	2017	2018	2019	2020	2021	2022
S-Class	5.7%	-22.0%	23.9%	16.1%	4.4%	-38.5%
R-Class	5.0%	-22.6%	23.6%	14.9%	3.4%	-38.6%
I-Class	-	-18.0%	24.0%	15.5%	3.7%	-38.5%

Performance data is based on the BVI method, net of all costs . Past performance is not a reliable indicator of future performance.

INTRO (CONTINUED)

Secondly, it is important to understand who has deep pockets at this point in time, that is, liquid assets to buy up competitors or else to keep the marketing budget up while others have to slow down.

So, we have re-evaluated some of the fund's holdings over the past few months from these two perspectives.

By the way, from the above conclusions, you can also see that we strongly believe that the world and its economy will continue to turn. The world has already gone through many quasi-apocalypses and in the darkest hour Warren Buffet opened his checkbook.

How did the current situation in the global capital markets come about? Two years ago, in response to a new form of crisis, the world's central banks, perhaps somewhat panicked, injected a lot of money into the market. Large bond-buying programs were flanked by consumer checks. All of this took place in the context of great social unrest, and it is not surprising that consumption checks were in effect the first steps toward a Universal Basic Income (UBI).

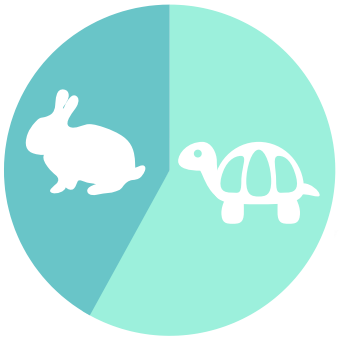
The upward exaggeration on the stock markets has now been followed by a downward exaggeration. On the way up, tipping points were crossed and companies were able to raise financing or conduct IPOs that should not have been possible in the first place. On the current downward path, tipping points are also being exceeded and companies that should actually be entitled to follow-up financing are disappearing from the market again.

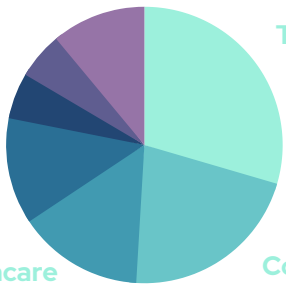
The correlation of all asset classes is currently very high due to liquidation cascades. We were unable to escape this dynamic, which was driven by panic selling in all corners of the capital market. Not a single position in the fund was positive in the past quarter. The f3x euroflex closed the second quarter with -26.6%. This compares to other European indices like the MSCI Euro Small Cap with -21.0%, the TecDax -13.9% or the SDAX -17.5%.

We had high portfolio turnover by our standards, which logically follows from the above. In the past quarter, we primarily engaged in crisis beneficiary selection. We exited five core positions, built up two new core positions with the capital and are currently working on another new core position. The style of the portfolio changed somewhat, so that the value side is higher than the growth side of the fund, with 58% of the invested positions.

15

core positions



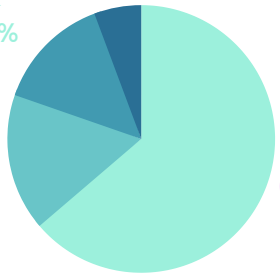


4.0

Ø market cap in €bn

12.3%

Ø sales CAGR 2021-2024



Top 10 Positions

Company	Weight	Business
SLM Solutions Group AG	9.7%	Manufacturer of 3D printers
ADVA Optical Networking SE	8.6%	Networking infrastructure equipment
M1 Kliniken AG	6.4%	Clinic chain for aesthetic procedures
Modern Times Group MTG AB	6.2%	E-Sports league and mobile gaming dev
Acast AB	5.6%	Podcast marketplace
BioNTech SE	5.4%	Developer of novel therapies for cancer
Amadeus FiRe AG	5.1%	Human resource and employment services
Bitcoin Group SE	4.7%	Crypto exchange
Eurofins Scientific SE	4.6%	Provider of analytical testing and laboratory services
Vossloh AG	4.0%	Railway components

PERFORMANCE DRIVERS

2022 Q2
in basis points to NAV

TOP CONTRIBUTORS

n/a	n/a

TOP DETRACTORS

Veganz	-314
SLM	-272
M1	-247
Naked Wines	-222
undisclosed	-215

REPORTING & EVENTS OF PORTFOLIO COMPANIES

M1 Kliniken AG

The aesthetic medicine practice chain reported a good increase in treatment numbers for its core segment in the first quarter, which landed at 89,000, around 9% above the same quarter last year and thus does not appear to be affected by worsened consumer sentiment. The pharmaceutical trading subsidiary Haemato is undergoing a sales rationalization. The low-margin trading business inflates the group's sales, so the rationalization of sales at the group level results in Q1 sales falling somewhat dramatically from EUR 80.8 million in the prior year to EUR 63.5 million in 2022. However, Group EBITDA increases slightly from EUR 4.0 million to EUR 4.2 million.

In addition to the 46 global locations at the end of 2021, 12 new ones are to be added this year. With a market capitalization around EUR 100 million, M1 is trading close to or slightly below a possible break-up value in our view. We believe that the supervisory board is not shareholder-oriented enough. The Annual General Meeting will be held in Berlin on July 13, which will provide an opportunity for countermotions. It would certainly make sense for the company to take on a strategic financial investor via PIPE or block transaction, which would further professionalize reporting and corporate governance.

REPORTING & EVENTS OF PORTFOLIO COMPANIES (CONTINUED)

Moonpig Group plc

At the end of May, the British gift and greeting card specialist Moonpig announced the acquisition of the gift experience platform Buyagift. A purchase price of GBP 124 million will bring GBP 44 million in sales and GBP 14 million in EBITDA to the group. Buyagift can be understood as the British "Jochen Schweizer" and brings nearly 3 million customers into the Moonpig cosmos. The acquisition fits perfectly with Moonpig's communicated M&A strategy of exploiting its scale and cash-generative model to consolidate the fragmented gifting, flower and greeting cards market. It should primarily derive revenue synergies from the integration of Buyagift, which in any case generates a slightly higher margin than the existing group. The acquisition was certainly also a clever tactical maneuver vis-à-vis ProSiebenSat.1 (which holds stakes in Jochen Schweizer and Mydays). Moonpig now expects revenues of GBP 350 million for the fiscal year ending April 2023. In the medium term, the company now guides for an adjusted EBITDA margin of 25 - 26%.

EXITS

In the past quarter, we sold four positions completely.

#1 ASOS plc

We continue to think ASOS plc is an interesting growth story with a serious agenda to make the fashion market sustainable and inclusive. The company has already and will continue to exploit the weakness of other fashion players in the market to expand its position. In particular, the cooperation with Nordstrom in the U.S. remains strategically valuable. However, with the shift of fund capital to Zalando, we are betting on a consolidation level above ASOS. Zalando could also handle the ASOS market capitalization of less than EUR 1 billion. If we had not shifted to the financially more attractive and also more sustainable opportunity Zalando, the fund would maintain its holding for the time being.

#2 Fabasoft AG

The fund says goodbye to Austrian administrative software provider Fabasoft driven by risk considerations. The company has been reporting somewhat softer growth for several quarters now, especially in its promising subsidiary Mindbreeze. The latter is an AI module that is used by public authorities and companies to make connections in large unstructured data sets and electronic documents. For a long time, the market speculated on a spin-off or a partial sale of the Mindbreeze subsidiary. A year ago, a valuation of 15-20x sales would not have been a surprise. However, as the valuation scale for SaaS and cloud companies has reduced significantly this year in the bear market and the "down round cascade" in venture capital is just beginning, this part of the investment thesis is broken for Fabasoft. In this context, it is problematic that the shareholder landscape at Fabasoft is fairly homogeneous. Around a cluster of southern German investors, many shareholders look at the same KPIs. Once this "gang" gets nervous, a selling panic could ensue. This is dangerous for a company with a market capitalization of EUR 220 million. The position was sold with a small loss of 81 BP at fund level.

#3 Veganz Group AG

In the intro of the Investor Letter, we wrote about "companies that were able to raise financing or conduct IPOs that really should not have been possible."

In hindsight, Veganz's IPO in November 2021 unfortunately falls exactly into this category. Its market capitalization of once just over EUR 100 million has shrunk to EUR 20 million. The company's stock is now in a technically dangerous situation. We were able to liquidate our position in a block trade. From a risk management perspective, this was without alternative.

EXITS (CONTINUED)

The Veganz IPO probably came already after the IPO window was firmly closed on global stock exchanges and was probably unnecessarily forced. In addition, after the IPO, the company afforded itself two negative ad hocs in quick succession, which effectively made the shares a "stock non grata".

After the company had to revise its sales and earnings forecast for fiscal year 2021 on February 24, 2022 due to the delayed payment of subsidies, the capital market's confidence in the stock market newcomer was damaged for the first time. On May 23, however, the company surprised the market again with a negative announcement. Total sales outlets fell from 25,199 to 22,308 from December 31, 2021 to March 31, 2022, triggered by significant supplier and product rationalization by supermarkets and discounters due to global price and supply chain pressures. Currently, private labels are being pushed much harder and brand diversity in niche areas is being restricted. This is hitting small companies like Veganz hard. In addition, Veganz revised its capex forecast for the construction of its own production facility upwards by 30% from EUR 12.6 million. This is also largely due to external factors such as increased construction costs.

In the end, the capital market does not care whether it was the company's fault or the adverse environment that led to the current situation. However, the figures give the impression that Veganz is under considerable pressure in terms of both sales and costs. In market shakeout periods like these, relative weakness vis-à-vis suppliers and customers is severely punished. Of course, the IPO has given the company sufficient liquidity for the time being, but a quick turnaround is not to be expected. The share price ended up at the current level with a few thousand Euros in daily trading. Many investors are now "trapped" in their position. Any "pop" is likely to be perceived as a liquidation opportunity. In our view, the most sensible thing for the company to do now is to use this phase to make tough decisions that could not otherwise be made. This could include, for example, a disciplined rationalization of the broad portfolio of 120 products. Veganz has some category winner candidates in the snacking space. A maximum focus on 10-20 products could grow sales faster than trying to scale the whole range. However, a withdrawal from the stock market à la Rocket Internet style is not recommended for the time being for reputational reasons.

We crystallize a loss of 597 BP at fund level. In purely quantitative terms, Veganz thus marks the worst investment result since the fund's inception. With a longer time horizon, this could look different, but in the current state of the capital markets with merciless liquidation cascades, risk management proceeds without compromise.

EXITS (CONTINUED)

#4 Vita 34 AG

Since December 2021, the fund has become a Vita 34 shareholder through the swap of PBKM shares. As expected, the Polish cord blood bank PBKM took over Vita 34 through the back door. Former PBKM CEO Jakub Baran took over as CEO of the entire group on March 22, ousting former CEO Dr. Wolfgang Knirsch. Strategically, the group now has a clear path to dominate the European umbilical cord blood storage market and roll out adjacent business models such as adult fat cell storage.

Operationally, the company is likely to face a period of transition. Leveraging synergies may be more difficult than in other mergers due to cultural challenges. The current cautious consumer sentiment in core Western European markets, as well as the Putin-induced general uncertainty within Eastern European markets, postpone the play-out of the investment thesis for Vita 34 until further notice.

This, in combination with our ambition to reduce illiquid stocks from a risk management perspective, led us to sell the position. We used part of the capital for the BioNTech investment, thus maintaining the biotech exposure of the fund.

The fund takes a neutral exit from the combined investment in PBKM and subsequently Vita 34.

#5 Craneware plc

Since mid-2020, the fund had an investment in this British developer of hospital software. Basically, the company is in an attractive market situation with its land and expand strategy. Craneware exclusively serves U.S. hospitals. The combination of increasing political and fiscal uncertainty in the US, and our ambition at this stage to focus more on the larger players in a sector, led us to sell the Craneware position. The fund exits neutral.

ENTRIES

This quarter we are introducing two new core position.

#1 BioNTech SE

We struggled with this investment for a little while. Everyone has an opinion on the company, and the market capitalization is outside of our scope. In the end, however, the constellation was simply too convincing and, from an entrepreneurial perspective, BioNTech is a genuine German "Mittelstand" company.

As of March 31, 2022, the company has EUR 6.2 billion in cash and EUR 12.7 billion in trade receivables on its balance sheet. So, three months ago, 60% of the market capitalization of just under EUR 32 billion was already covered by cash and cash soon to arrive. By the end of 2023, the company's net liquidity should be in the ballpark of EUR 25-30 billion. Goldman Sachs analysts assume baseline sales of Corona vaccines of EUR 5 - 6 billion per year from 2024 onwards. In addition, BioNTech is currently conducting 22 trials in cancer indications, five of which are already in phase 2.

The essence of this investment is that many greedy hands have traded BioNTech's stock over the past 2.5 years. As the pandemic gradually disappeared from the media, so did investment interest. However, the cash is really starting to pile up at BioNTech just now, Corona remains with us, and BioNTech's real core business, cancer therapies, is yet to take off.

In many ways, the BioNTech constellation is reminiscent of Apple in 2015 - 2017, with Mr. Market thinking the company was a "one-trick pony" and overlooking all the optionality. If investors fail to recognize BioNTech's intrinsic value, the company may engage in massive share buybacks to jump-start the market.

Sector

Biotech

Country

Germany

Market cap

EUR 36,730m

Weight

5.4%

Style

Value

Sales LTM

EUR 23,303m

Sales CAGR 2021 - '24

-29.1%

ENTRIES (CONTINUED)

#2 Zalando SE

With Zalando, we had to rub our eyes several times this year. Who would have thought that the "de facto" winner of the European online fashion market could be bought again for EUR 7 billion. Based on the next 12 months, this corresponds to a valuation of 10x EBITDA. By comparison, the dinosaurs Inditex and H&M are currently valued at 8x and 7x EBITDA, respectively, and face much lower growth prospects and enormous regulatory pressure. Zalando should generate three to four times higher growth rates from 2023 onwards.

The investment in Zalando should be seen in combination with the sale of another core position of the fund, ASOS plc. We had already pointed out in the last Investor Letter the, in our view, exaggerated sell-off of e-commerce stocks. While British fashion stocks such as Boohoo or ASOS have fallen by 50% since the beginning of the year, their German counterparts such as Zalando or AboutYou corrected by 60%. All market participants are being pressured by the confluence of worsening financing conditions, cautious consumers and increased logistics costs. In our view, Zalando will emerge as a winner from this phase. For years, Zalando has focused on expanding its platform business, including proprietary logistics infrastructure. This opens up margin potential that is unattainable for other fashion companies. In 2021, 30% of gross merchandise value came from platform business with third parties.

Many e-commerce companies are currently attractively valued, but in a period of market shakeout, we believe it is prudent to bet on the biggest ship.

That said, Zalando is one of the few companies in the sector that has laid the foundations for a post-fast fashion world with its logistics and technology infrastructure. None of the competitors mentioned above will be able to handle 2nd-hand transactions at a relevant scale. Perhaps Zalando will soon be able to take advantage of the panic in the venture capital market to acquire one or two interesting 2nd-hand platforms.

Sector

e-commerce

Country

Germany

Market cap

EUR 6,620m

Weight

4.3%

Style

Growth

Sales LTM

EUR 10,321m

Sales CAGR 2021 - '24

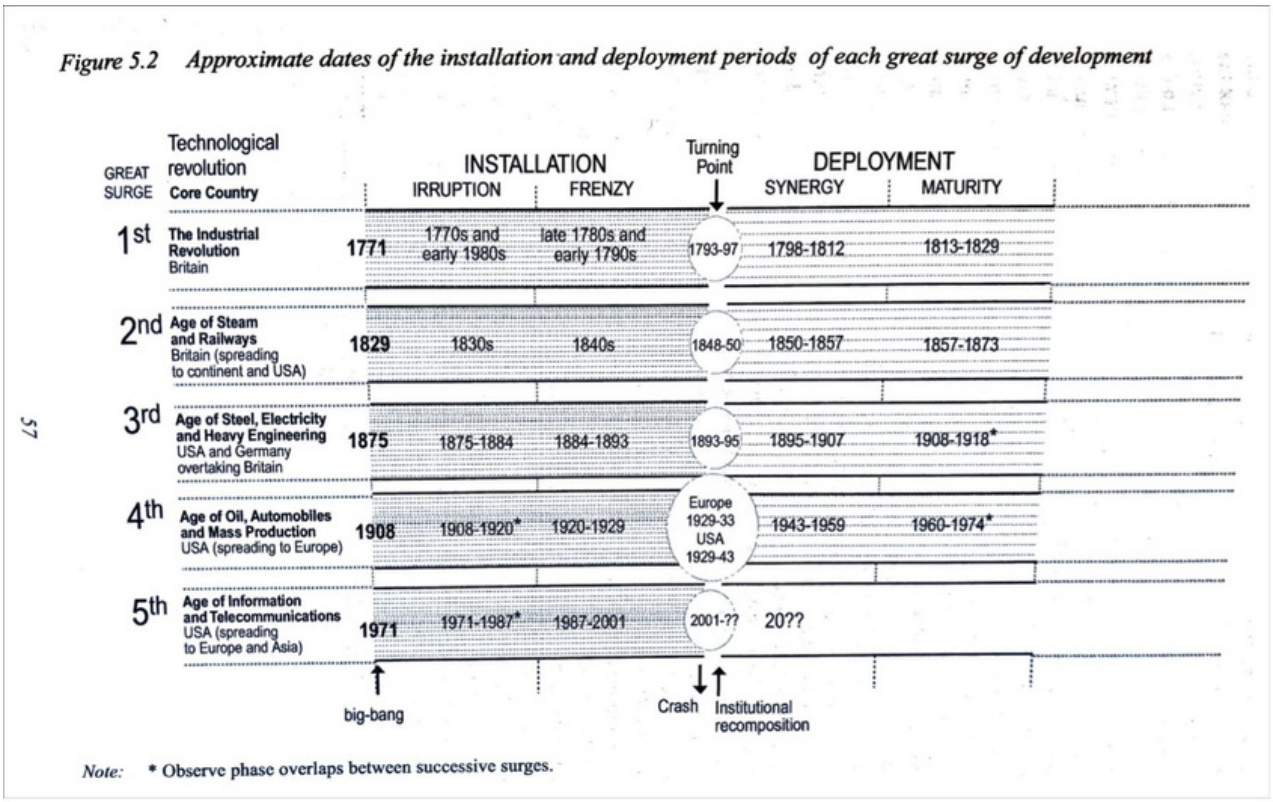
11.4%

OUTRO

We pick up the theme from today's intro again: The world will continue to turn. But what comes after that? How will the world continue to turn?

We have been in a "suprasecular" period of falling interest rates for 800 years (Bank of England Paper). Technology, and especially the combination of software and the Internet, continue to provide deflationary pressure. But is the evolution of the Internet in terms of Web 3.0, NFTs and crypto really the next technological revolution or simply the final "deployment" phase of a cycle that began with the development of semiconductor chips back in the 1970s?

In her influential work, "Technological Revolutions and Financial Capital," Venezuelan economist Carlotta Perez posits a model of five distinct technological development phases shaping humanity. The most recent phase, the "Age of Information and Telecommunications," began in 1971 with the market launch of the first single-chip microprocessor, the Intel 4004. Much of what followed - PCs, the Internet, e-commerce - should be traceable to the chip's big bang.



Source: Own scan from "Technological Revolutions and Financial Capital"

Perez assumes that revolutions typically last 50 years, although the Big Bangs, which are primarily narrative in nature, may not be perfectly distanced that way.

OUTRO (CONTINUED)

She wrote her book in 2002, and she does not speculate at all about what might follow the Information Age. She does give a tiny hint, however, on page 13:

"It has often been suggested that biotechnology, bioelectronics and nanotechnology might conform the next technological revolution. Indeed, they are already developing intensely within the logic of the information society."

Perez's hunch was picked up by one of the current opinion-leading venture capital firms, Andreessen Horowitz. One of the founding partners wrote an essay in 2011 titled "Software is eating the world." That, too, led to so much attention focused on funding SaaS and cloud companies in the years to come. In 2019, Andreessen Horowitz released a new manifest called "Biology is eating the world." The underlying investment thesis reads:

"We are at the beginning of a new era, where biology has shifted from an empirical science to an engineering discipline. After millennia of using man-made approaches for controlling or manipulating biology, we have finally begun using nature's own machinery – through biological engineering – to design, scale, and transform biology."

- Jorge Conde, Vijay Pande and Julie Yoo, all General Partners at Andreessen Horowitz

With that in mind, thinking about the Corona pandemic and the introduction of the BioNTech mRNA vaccine, Perez's hunch does not seem entirely far-fetched. Within 18 months, the immune systems of nearly 5 billion people worldwide were temporarily "reprogrammed" and we abruptly became more resilient to our environment. Did the big bang happen in Mainz, Germany, perhaps?

Biotechnology is also revolutionizing our food system. For example, the synthetic production of milk proteins based on molds reduces animal suffering, water consumption and greenhouse gases. Of course, no one wants artificial milk from the lab at first. But what if at some point there is no cheap cow's milk on supermarket shelves because producer prices have become unsustainable due to climate change and disrupted supply chains?

Biotechnology could be the key par excellence to addressing the increasing adversities of our environment.

But as an investment class, the sector remains difficult. Active ingredient studies are binary. But should a "bio-age" establish itself as the next great technological surge, there will be shovels to sell to all the gold diggers: Instruments, technical consumables, enzymes, etc.

Gold diggers can only be bet on, shovel sellers can be invested in.

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