

# f3x capital

Investor Letter 18  
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## Intro

What a first quarter as f3x: For the fund, the summer was largely characterized by the takeover battle for Zooplus (more on this later) and strongly increasing volatility in September. The NAV of the fund barely changed by -0.6% in the past quarter and is thus up +12.5% since the beginning of the year. Year-to-date, the fund remains ahead of the MSCI European Small Cap Index, which fell -0.1% last quarter and is up +10.6% year-to-date. Since inception, the fund has increased its value by +33% cumulatively after all costs, outperforming the MSCI European Small Index by 3.1%, which increased its value by 29.9%.

The global economy is still being buffeted by spillovers from the lockdowns. Currently, container freight costs stand out, which have increased tenfold. This was partly triggered by corona cases at the Chinese port of Futian, which for some time could only operate at 50% capacity utilization. Another challenge for supply chain managers and purchasers are the re-emergence of pandemic-related restrictions in Southeast Asia. In the wake of the U.S.-China "trade war" of recent years, many companies began to restructure their supply chains away from China to neighboring countries. Vietnam, for example, unfortunately does not yet have a good handle on the virus and is currently a much less reliable trading partner than China as a result. This supply chain tangle is once again an argument for investing less in globally distributed, complicated supply chains and preferring localized or digital business models. Capitalism and climate protection are joining forces here.

Despite the drama in freight prices, we're not worried about the longer term. We have also overcome the toilet paper crisis of the first lockdown. All kidding aside, lumber prices have dropped threefold since their peak, and iron ore has also dropped again by 50%. Our hypothesis remains that the global economic system is building up a lot of pressure in the synchronized revival and is going through temporary distortions as a result.

In the capital markets, we experienced minor setbacks in mid-July and mid-September. The key dynamic in the third quarter was the emerging concern about the Chinese real estate conglomerate Evergrande, which may slide into insolvency. Credit experts believe that there is a low risk of contagion for the Western financial system. However, the business press is currently talking up a Chinese "Lehman moment," which is leading to widespread uncertainty on the global stock markets.

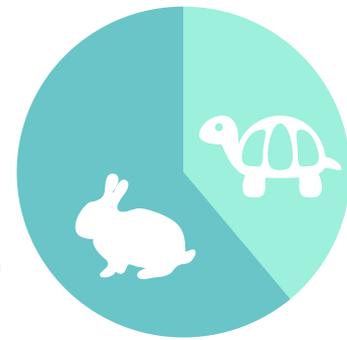
The increase in the DAX to 40 companies was good for Germany as a stock market location, and thus also for Europe. The USA cannot boast a fashion beast like Zalando, and Hellofresh also dominates the North American market. The next DAX member of the younger generation will presumably also come from the retail sector in the broader sense and thus not be a true tech company, but Hellofresh and Zalando nevertheless make Europe more visible as a location for innovation.

Volatility on the capital markets remains elevated. Our price targets in bear and bull scenarios for pipeline and portfolio companies are quickly becoming obsolete. You can literally feel day traders chasing "spikes" along with social media based algo traders amplifying price amplitudes. The key is to understand the long-term market potential and quality of business models, ignore the huge flood of trade ideas and pitches, and calmly use the right days to gradually add to core positions.

**18**  
core positions

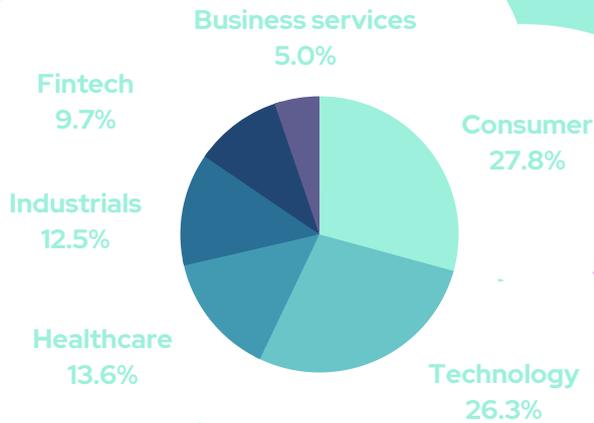
**Style**

Growth  
58.3%



Value  
36.5%

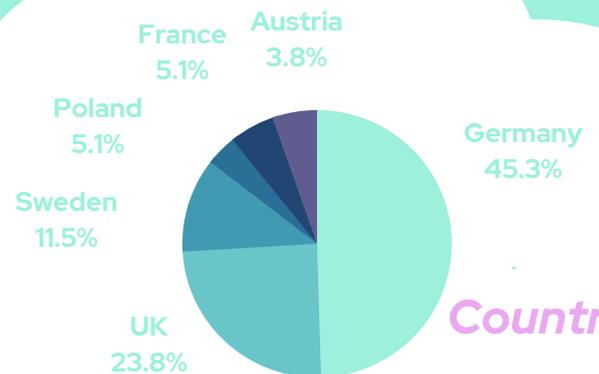
**Sectors**



**2.3**  
Ø market cap  
in €bn

**17.6%**  
Ø sales CAGR  
2020 - 2023

**Countries**



**Top 10 Positions**

Company	Weight	Business
SLM Solutions Group AG	7.8%	Manufacturer of 3D printers
Modern Times Group MTG AB	7.5%	E-Sports league and mobile gaming dev
Polski Bank Komorek Mac. SA	5.3%	Polish cord blood bank
Eurofins Scientific S.E.	5.3%	Globale Testlaborkette
init innov.in traffic systems SE	5.2%	Public transportation technology
JDC Group AG	5.2%	Technologie für Finanzdienstleister
M1 Kliniken AG	4.9%	Clinic chain for astethic procedures
Vossloh AG	4.9%	Railway components
AMADEUS FIRE AG	4.7%	Training and staffing services
Naked Wines PLC	4.7%	DTC wine club in UK and USA

# REPORTING & EVENTS OF PORTFOLIO COMPANIES

## PERFORMANCE DRIVERS

2021 Q3  
in basis points to NAV

### TOP CONTRIBUTORS

Zooplus	+347
JDC	+175
Amadeus FiRe	+68
Eurofins	+64
init	+58

### TOP DETRACTORS

M1 Kliniken	-226
Asos	-194
SLM Solutions	-158
THG	-71
MTG	-67

## Asos

On July 15, progressive fashion retailer Asos reported on the quarter ended June 30. Sales increased by 21% in constant currency. However, the capital market disliked a 150BP deterioration in gross margin and more cautious management statements on the remainder of the fiscal year end on August 31. The narrowed gross margin was caused by currency effects and increased freight costs - 60% of Asos' own brands travel by ship. The share price corrected 30% since the interim report. Based on analyst consensus, Asos is now currently priced at 0.75x 2022 revenue or 16x EBIT. For a company that can still grow by double digits in the medium term and has the opportunity to grab significant market share in the U.S., this is a real bargain. On July 12, it announced a partnership with U.S. department store chain Nordstrom, which should provide a tailwind for market development. Recently, Asos also held a dedicated capital markets day on its sustainability strategy. The carbon strategy (Net Zero by 2030) is reasonable, so is the sourcing of sustainable textile. We would have liked to see more edge on the topic of "Circular Design". An official strategy on this is not to be presented until 2023.

## Eurofins

At the beginning of 2018, the fund acquired its first shares in the French laboratory services provider Eurofins. At that time, the market capitalization was still between EUR 7 - 8 billion, but has now reached EUR 24 billion. Eurofins has thus been listed in the main French index CAC40 since September 17. A well-deserved reward for decades of work by founder and CEO Gilles Martin. The Handelsblatt dedicated an article to him on September 21 ([LINK](#)). The fund has tripled its stake. The position contributed 456 BP to total performance so far.

## Fabasoft

The Austrian administrative software and knowledge management company reported on August 27 on the first quarter of fiscal 2021/22, with total group revenue down slightly due to a cautious customer environment. The capital market seems to extrapolate this quarter, which is why Fabasoft's valuation corrected by 12%. Currently, Fabasoft is trying to distribute its Mindbreeze products to large international customers in order to escape the previously too small-scale distribution.

## Zooplus

In our Q1 2021 investor letter on April 6th, 2021 we wrote:

*"We believe Zooplus has reached a relative dominance that might allow it to "win" the European online pet food & supplies category. [...] As conglomerates like Nestle look to invest more in the pet food space, Zooplus might also become an acquisition target at some point."*

Four months later, on August 13, it becomes clear that we were wrong. It is not a strategic, but a private equity company that is attempting a takeover. Hellman & Friedman offered €390 per Zooplus share. After rumors emerge that KKR and EQT are also in talks with Zooplus, H&F raised its offer to €460 on September 12. EQT then responded with a counteroffer at €470 on September 25. Within a few months, the fund has more than doubled its stake in Zooplus. The market is speculating on another bid. The fund liquidated its position entirely into these rumors on October 1 at €488. With short position, call and equity investment, the fund was able to achieve a total of 940 BP for overall performance.

## EXITS

In the past quarter, we sold one position completely.

### McBride

During the third quarter, the fund sold a perpetual construction site called McBride plc. The British company produces private label household chemicals such as dishwasher tabs and laundry detergent, generating annual sales of just under GBP 700m in 2020. Our investment hypothesis at the time of entry in 2017 was based on the fact that McBride, with its 18 factories, has strategic production capacity for the European household chemicals market, but plays too large a product portfolio. A rationalization process was to provide a lift in margins, which should have been accompanied by slight structural growth as brand manufacturers increasingly outsource to contract manufacturers like McBride. In doing so, we underestimated the suicidal competitive intensity that had repeatedly led to bankruptcies in the sector in recent years. McBride's management has never been able to secure this market share for itself. We also assume that McBride had increasing problems recruiting talented employees. The volatility of the oil price, an input component of McBride's products, repeatedly put the company under external pressure, which interfered with overcoming internal problems. After reducing our stake in the interim, we added to the position in late 2019 and the Corona crash, as breakup value exceeded market value. Several activists hold McBride shares, but have also not yet been able to bring about a sale or partial sale of the company. Given the current valuation environment and at the same time many other more attractive long-term opportunities within the f3x universe, the fund is now saying goodbye to McBride after four years, crystallizing a loss of 290BP at the fund level, which was significantly mitigated by the aggressive purchases in the Corona crash.

### Zooplus

See section "Reporting & Events". The position was sold in full one day after the close of the quarter.

## ENTRIES

This quarter we are introducing three new core positions.

### #1 ADVA Optical Networking

ADVA Optical Networking SE is a German network equipment provider headquartered in Thuringia, Germany. ADVA focuses on the "intelligent" components of fiber optic networks, so-called switching, routing and synchronization. In this context, 70% of sales come from control components for longer distances, 25% for metropolitan networks and 5% of sales from synchronization technology. The latter will make up an increasingly large part of ADVA's revenues, especially in the context of 5G, when many decentralized system components have to be coordinated with each other.

The fact that our Internet infrastructure is inadequate for the exponential penetration of e-commerce, video conferencing and the like became apparent to everyone since the lockdowns - ADVA operates in a friendly market environment. But that alone is not enough: The tech bubble around the turn of the millennium had led to a massive flood of competition in the network equipment sector. Countless manufacturers were unable to meet the return expectations of venture investors. The result was a 15 to 20-year consolidation phase that seems to be slowly coming to an end. ADVA survived and, as a European manufacturer with an excellent sustainability strategy and an agile corporate structure, is in an excellent position to grab the market share that is now becoming available (Huawei and Co.) in North America.

In addition, a takeover bid by U.S. competitor ADTRAN Inc. was announced at the end of August. In 2022, ADTRAN and ADVA shares are to be contributed to a new vehicle via a share swap, which is to be listed in both New York and Frankfurt. ADVA communicates possible synergies in the amount of USD 50 million per year. At the same time, the company is eyeing the rerating potential that is to be uncovered by the dual listing. ADTRAN generates a similar high turnover as ADVA with approx. USD 500 million, but is less profitable and is nevertheless valued on the stock exchange with a premium of 50% compared to ADVA. ADVA shareholders will hold 46% of the new entity. We believe ADTRAN has interesting customer additions for ADVA. Both companies are just coming out of an R&D intensive phase, which should now be followed by years of increased profitability.

<b>Sector</b>
Technology
<b>Country</b>
Germany
<b>Market cap</b>
EUR 603m
<b>Weight</b>
4.6%
<b>Style</b>
value
<b>Sales LTM</b>
EUR 581m
<b>Sales CAGR 2020 - '23</b>
6.9%

## #2 BITCOIN GROUP

Bitcoin Group SE is a German crypto trading platform from Herford near Bielefeld. The main business consists of the somewhat archaic platform [www.bitcoin.de](http://www.bitcoin.de). The website offers an open order book for Bitcoin, Ether, Litecoin, Ripple and major Bitcoin "forks" (technological spin-offs). The platform is a so-called peer-to-peer exchange. Users of the platform can match their buy and sell orders via [bitcoin.de](http://bitcoin.de), and Bitcoin Group takes no counterparty risk, retaining 1% of the crypto transaction volume. Of that, 80% is in turn immediately exchanged into fiat. In June this year, the group announced the important milestone of 1,000,000 customers. According to our research, 20-25% of them can be considered active.

For years, the company has been thoroughly and patiently treading the path to offer investors access to the crypto market out of Germany without resorting to legal trickery via Singapore, Channel Islands or Liechtenstein. In 2018, a securities trading bank was acquired and work is currently underway to upgrade to a full deposit-taking institution. We expect Bitcoin Group to have a full banking license by the end of 2022.

The company's nearly 30 employees operate the technological platform on the one hand, but are now increasingly handling crypto block trades for institutional investors. It's a business that could gain momentum if more traditional institutions follow Union Investment's lead and include crypto in their "Mischfonds" ([LINK](#)). Through its trading activities, Bitcoin Group has now built up considerable crypto assets. Nearly 10,000 Ether and 3,700 Bitcoin are on its balance sheet, 98% of which in cold storage (segregated from the Internet). This means that the company holds between EUR 150 - 200 million in crypto assets, depending on the daily exchange rate. In addition, there is a cash position of EUR 15 million, which is steadily increasing due to an annual free cash flow of 5 - 10 million. The market capitalization of Bitcoin Group as of September 30 is EUR 190 million - even Benjamin Graham would have found that interesting.

### Sector

Fintech

### Country

Germany

### Market cap

EUR 190m

### Weight

4.1%

### Style

growth

### Sales LTM

EUR 27m

### Sales CAGR 2020 - '23

n/a

## #2 BITCOIN GROUP (CONTINUED)

As an ethically oriented fund, the question of Bitcoin's climate impact naturally arises at this point. Various studies estimate the annual power consumption of the Bitcoin network at just under 126 TWh, which is roughly equivalent to the power consumption of Pakistan. For comparison, Germany is at 517 TWh. The reason for the energy intensity is the network's so-called proof of work system, in which computing power is mandatory for every transaction. A more energy-efficient version of a crypto network is the proof of stake system, which is implemented by the Cardano network, for example.

Two comments from us on this: (1) Blockchains are democratic systems and can change. If a sufficient proportion of network members support a technological transformation, a Blockchain protocol can be changed from Proof of Work to Proof of Stake, for example. Therefore, no blockchain is set in stone. The Ethereum network is currently attempting precisely the Proof of Stake conversion [\(LINK\)](#). (2) Given the experimental and possibly irresponsible policies of major central banks, the societal importance of cryptocurrencies cannot be overestimated. With risks such as hyperinflation or the increasing divide between countries with strong and weak currencies (US, China, EU versus Brazil, Russia, Turkey), it is better to see a fully independent currency system floating around the internet than not. Moreover, we believe that cryptocurrencies such as Bitcoin can create entirely new wealth-creating business models based on micropayments. Twitter founder Jack Dorsey and ARK Investment chief Cathie Wood published a white paper in April of this year titled "Bitcoin is Key to an Abundant, Clean Energy Future" [\(LINK\)](#). f3x continuously monitors the ethical classification of cryptocurrencies. By the way: Money laundering can be tracked excellently via the Bitcoin network.

### Sector

Fintech

### Country

Germany

### Market cap

EUR 190m

### Weight

4.1%

### Style

growth

### Sales LTM

EUR 27m

### Sales CAGR 2020 - '23

n/a

## ENTRIES

### #3 THG

THG plc is an exceptional UK e-commerce group based in Manchester, focused on high gross margin products. Founded in 2004 by Matthew Moulding as "The Hut Group", the company is a prime example of how to make intelligent use of the current liquidity environment to build an attractive long-term market position.

The company consists of three main divisions. The Beauty Division, with nearly GBP 1 billion in sales, is the world's largest online-only prestige beauty retailer and is gnawing away at the market share of brick-and-mortar dinosaurs in Europe and North America. The Nutrition Division has a strong direct-to-consumer brand in its portfolio with the protein powder "MyProtein" and as a segment will also crack the one billion annual sales mark in the next 1-2 years.

THG produces, markets and ships a broadly diversified portfolio of own and third-party brands and has started to make its own infrastructure accessible to third parties in recent years. A carveout of the relevant assets, technologies and services is currently taking place. For the "Ingenuity platform", Softbank was recently won as a technology investor, which secured a call option for 19.9% of the shares in Ingenuity - exercise price: USD 6.3 billion. We had recently illustrated THG in detail in an Equity Ride [\(LINK\)](#).

#### Sector

Consumer

#### Country

UK

#### Market cap

GBP 6,465m

#### Weight

3.9%

#### Style

Growth

#### Sales LTM

GBP 1,897m

#### Sales CAGR 2020 - '23

30%

## Outro

In our last quarterly letter we reported that we were looking for a female working student. The search has come to an end: Since the beginning of September, f3x is supported by Jessika Fast. She is currently doing her master's degree in business administration at Goethe University in Frankfurt. Previously, she worked at a startup focused on the application of artificial intelligence in hospital and insurance IT. Welcome Jessi!

Our former intern and working student David Kefeli has to leave us in the meantime. He is currently relaxing at an internship in the M&A department of Morgan Stanley. Thanks for your energy and hard work over the past year, David!

For several months now, f3x has been using a new type of portfolio optimization software called AlphaTheory. It enables systematic management of the portfolio. For each portfolio component and new idea, at least three different price targets must be entered. The price targets, in turn, are assigned probabilities, resulting in a weighted average price target and thus return outlook. The probability-weighted return prospects serve as an initial starting point for calculating an optimal portfolio constellation. A myriad of further constraining conditions such as minimum liquidity, maximum loss from a single position, beta or momentum can then be specified at the portfolio level. These conditions then "trim" the original portfolio constellation accordingly. In addition, we also apply a list of qualitative factors that can lead to a slight overweighting of individual positions. AlphaTheory thus combats mental mathematics and allows you to create a more stringent version of your own thought processes. The platform offers many interesting outputs for iterative self-optimization such as the accuracy of one's forecasts, whether one is thinking too extremely, or perhaps being systematically pessimistic. The system also asks to update price targets once a quarter.

As of September 30, f3x has fund resources of EUR 10 million. With a combination of performance and new investors, we aim to double UCITS assets to EUR 20 million by the end of the first quarter of 2022. This should allow us to add more young talents like Jessi and David to the team or to train them further.

#onwards

