



Holland Views – Exor – Price: €69, Mcap €14bn

Building Berkshire in Turin – Part III

Last week we attended the biennial Exor investor day in Turin. For those interested in understanding Exor and the detail they revealed about each subsidiary company, we recommend the slides and transcript of that day (see link¹). We will focus more on Exor as a long term investment and what we think will be the drivers of it. From today's share price, the group offers upside to the Sum of its Parts NAV of 33% (€92). Yet, as we will show, to focus solely on such tangible yardsticks we think is to miss the bigger picture.

The first 10 years – Mission accomplished

Exor with John Elkann at the helm has done great job of achieving its core strategy of growing NAV value per share (actual NAV compounded +19% since 2009). Interestingly this growth has been achieved despite starting with a seemingly challenged group of assets at the outset of this period. This is especially interesting to reflect on today as the current group of assets is one that still keeps many investors away! The early work done to simplify the group's structure and align the Agnelli family interest with outside shareholders into a single share class should not be underestimated either.

Elkann oversaw this rise in value in numerous ways including:

- Appointing and empowering accomplished managers to controlled businesses and tasking them to adopt strategies to seek-out value accretive actions.
- Selling assets well (realising €5.8bn over 10 years), de-merging business or setting challenging profit recovery targets, many of which have overcome many sceptical outsider views (FIAT for years was a 'Sell' amongst most of its analysts and a favourite hedge fund short)

This investor meeting caused us to reflect on a few intangible aspects of the Exor Story

- Exor has a board of remarkable depth and quality². This is also supplemented by an advisory board with equal pedigree, but bringing additional reach. How Elkann and team have and continue to use this available wisdom and contacts is interesting to watch.
- Elkann appointed Sergio Marchionne to run FIAT group and the companies it subsequently became, importantly empowering him to be bold and brave with these businesses.
- That Exor/Elkann could attract, retain and identify a manager like Sergio is interesting to reflect upon. If it can continue to so with future controlled company CEOs, it will suggest that Exor is doing something quite unique. Only time will tell
- Elkann has more recently added to the managerial skill set available to him with senior hires with high level specialist skills in consulting/change management (Suzanne Heywood) and Investing – (Matteo Scolari).

¹ http://www.exor.com/sites/default/files/presentations-documents/2019/EXOR%20Inv%20Day%202019_VFfinal.pdf

² <https://www.exor.com/pages/exor/governance/people>

To listen to Elkann is to listen to a careful, considered and thoughtful man; not a salesman-like CEO or an accomplished fast talking investor like Buffett. We must remember too that Elkann is young (only 44) and often presenting in his second of four (!) languages.

Intangibles assets

An adage that comes to mind as we consider the sort of vehicle Exor is and will be into the future is that: “*you can only play the cards you were dealt*”.

In Elkann’s case, he was clearly dealt quite a privileged hand. However many others in the world are delivered similar hands but play them very very differently. We remind readers of the background work we did to understand Elkann many years ago. What we found then still resonates: Elkann was misunderstood by many Italian popular journalists who then seemed to find his work ethic and disciplined approach to businesses surprising and unusual to one born into such wealth.

Spending greater time with both Elkann and his team suggest to us that Elkann is someone that perhaps a great many people will want to work for. What we see the actions of a man unafraid to make big decisions (tackling family interests/selling big businesses/merging Fiat with Chrysler). We also see a modest man who is very keen to empower those beneath him. At 44 and with the controlling stake in Exor this is a man who epitomises alignment of interest. However as we study more and more business with similarly aligned owner managers we find very different management styles. Some arguably are run as benign dictatorships (RYA/SPD), and many are run with a not always healthy adoration of the leader by those that work for them (BRK/FFH). Exor and Elkann fit neither of these descriptions. Elkann does not have the swagger and arrogance of a great industrialist or investor who built the business from scratch. Instead he has a modesty that we think seemingly allows him to delegate to, and empower those beneath him with the actions they undertake and to challenge his thinking.

Similarities and differences

In our study of and investment in owner managers we are often struck by many of the similarities each possess. However crucial also is their idiosyncratic differences that we need to study to better understand the DNA of the businesses they are building. In that regard we firstly conclude that Elkann is very different from many of the other owner managers we follow and admire, but also that the more time we spend carefully studying him, his team and the actions they have made the more impressed we are by the combined array of skills being shown.

Additionally, Exor is now also set up as seemingly a constant learning machine, with studies made of areas that include: ‘What are the traits of owner managers?’ and ‘what are the best practices of Holding companies like EXOR?’ Impressively, their studies are focused not just on how to improve their business and investing decision making, but also on how to improve themselves (i.e. the holding company) too.

To view the remainder of this in-depth report, please contact Andrew Hollingworth, Andrew@hollandadvisors.co.uk for a complete PDF copy.

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