

Value Investing Conference



IDENTIFYING VALUE

Identifying Value –
Focus on Facts not Fiction

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ASSET MANAGEMENT GMBH

„Value is dead!“

Public opinion and sentiment – we have seen this before...



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Is value investing dead? It might be and here's what killed it

PUBLISHED SUN, JUN 23 2019 - 8:39 AM EDT | UPDATED SUN, JUN 23 2019 - 11:30 AM EDT

Yan Li

Is Value Investing Dead?

Jun 10 2019 5:30 AM PT | 10 comments | Includes: AMZN, FR, GOOG, GOOGL, NFLX

O'Shaughnessy
ASSET MANAGEMENT

Is Value Dead (again)?

For institutional investor, q...

Dan Taylor, CFA, Co-Chief I...

Is Value Investing Dead?

Maybe not, but investors historically on the value side are now buying more stocks on the growth side of the market. But should they?

Is value investing dead?

Tom Richardson | May 28, 2019 | More on: API, APX, PME, WTC, S&P

Is Value Dead (again)?

Markets

Goldman Sachs Mulls the Death of Value Investing

By Luke Kenna
June 8, 2017, 3:39 PM GMT+2

Is Value Investing Dead?

Probably not, says contributor John Waggoner. But perhaps more importantly, the concept is being redefined by active money managers.

THE IRISH TIMES

Mon, Aug 19, 2019

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The Re-Death of Value, or Déjà Vu All Over?

4th, 2019 | Research Insights, Guest Posts, Value Investing Research

Value Is Dead, Long Live Value: Multi-Disciplinary Perspectives From Across Man Group

By Edward Cole

Opinion: Is value investing dead?

Published: June 25, 2019 1:12 p.m. ET

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CRAMER'S COVID-19 INDEX CHAMPS

EARNINGS WINNERS	E-COMMERCE STOCKS	AT-HOME OFFICE	MEGA-CAP TECH STOCKS
THE CLOXCO COMPANY	Etsy Wix shopify twilio FACEBOOK	zscaler zoom RingCentral	facebook amazon Apple Microsoft Alphabet

WORK FROM HOME

ZOOM VIDEO	360.65	[-0.61%]
TELADOC HEALTH	145.92	[+0.43%]
PELOTON	110.23	[-2.14%]
NETFLIX	521.44	[+2.10%]

TOP TECH IPOs TO WATCH IN 2020

COMPANY	NICHE
airbnb	Vacation Rental Marketplace
蚂蚁集团	Financial Services & Technology
asana	Work Management Software
Palantir	Data Analytics
snowflake	Data Analytics Cloud Computing
unity	3D Development Platform

and guide to investing in them...

DOTCOM BUBBLE



NIFTY FIFTY



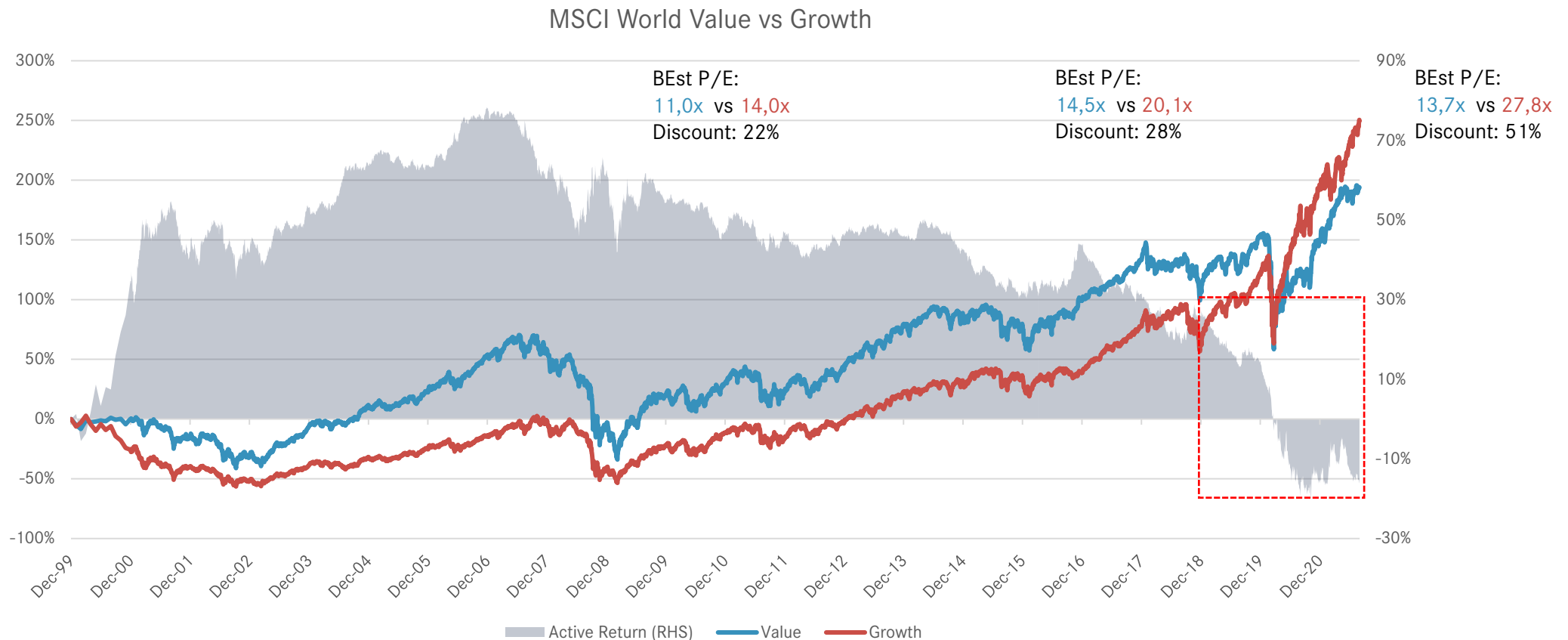


Multiple Expansion & Value Underperformance



MSCI World Value vs Growth

Performance of Growth driven by Multiple Expansion



Performance of Value versus Growth:

Since 2008: -48%*

Since 2018: -36%*



Factor Matrix

Recent underperformance driven by Growth, Quality and Momentum

		2000 - 2021			2018 - 2021		
		APAC	Europe	North America	APAC	Europe	North America
Value	FCF Yield	4	1	2	5	4	5
	Book Yield	2	7	5	8	8	6
	Dividend Yield	1	6	4	7	6	4
	EBIT/EV	3	3	1	6	5	7
	Earnings Yield (T+1)	6	5	3	4	7	8
Momentum	Key Momentum	8	2	7	2	1	2
Quality	CFROI FY1	7	4	6	1	3	3
Growth	EPS growth FY2/FY1	5	8	8	3	2	1

The table illustrates the rank of a given factor in each market (column) for each time period.
1 = highest performance, 8 = worst performance

- Long-term, Value factors provide superior returns, i.e. Fundamentals Matter
- As of 2018, we saw sole-focus on stories and fiction



Multiple Expansion

Surge of fundamentally unsustainable stocks drove the markets in the pandemic

	Price / Sales (LTM)				Price / Earnings (FY+1)	
	LVMH	Microsoft Corporation	Tesla, Inc.	NIO Inc.	LVMH	Microsoft Corporation
Dec-17	3.1	7.1	4.7		17	22
Dec-18	2.9	6.8	3.2	2.2	23	27
Dec-19	4.2	9.3	3.0	3.5	20	29
Dec-20	5.5	11.5	23.0	28.8	55	35
Aug-21	5.7	13.6	16.8	13.2	34	39

Percent of U.S. Stocks trading over 10x Price/Sales:



Data from 1/1980-6/2021 | Source: GMO, Compustat

- Performance of trending stocks in 2019 and 2020 was purely the result of multiple expansion.
- Highly overvalued stocks (P/S) tend to underperform in the long-run
- Comparable performance (recently) was only during the TMT bubble
- Long-run return of high-risk stocks comparable to U.S. Aggregate Bond Index

Performance of Stocks trading over 10x P/X vs. Indexes:



Data as of 6/30/2021 | Source: GMO, Compustat, Standard & Poor's

The over 10x P/S portfolio is a market capitalization weighted portfolio of all stocks trading above 10x trailing 12-month sales, rebalanced monthly.



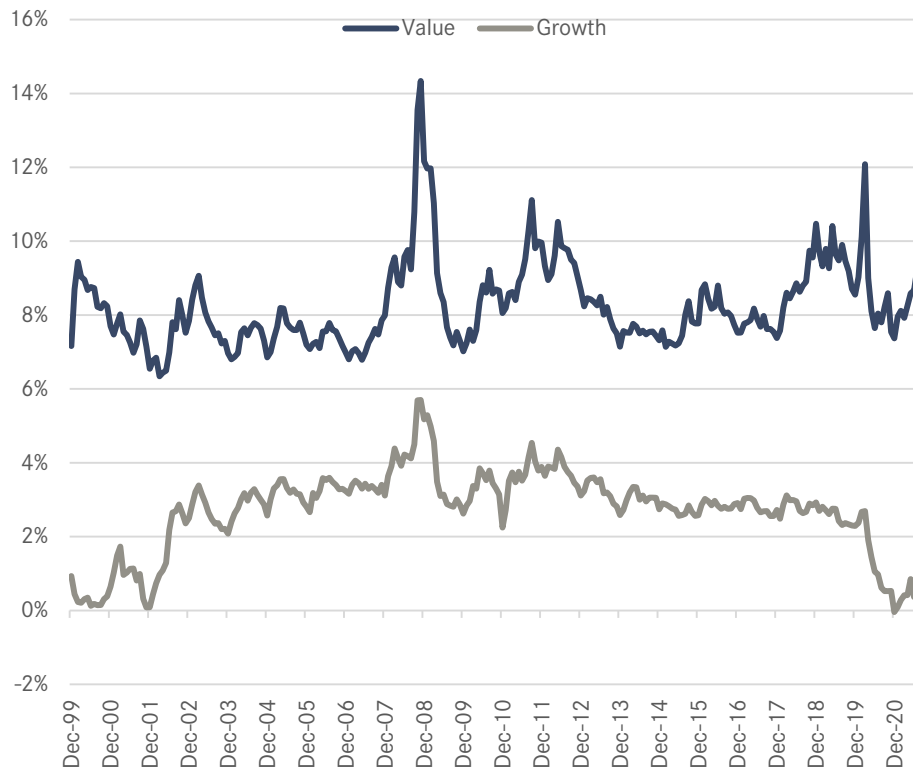
A look under the hood – fundamental facts



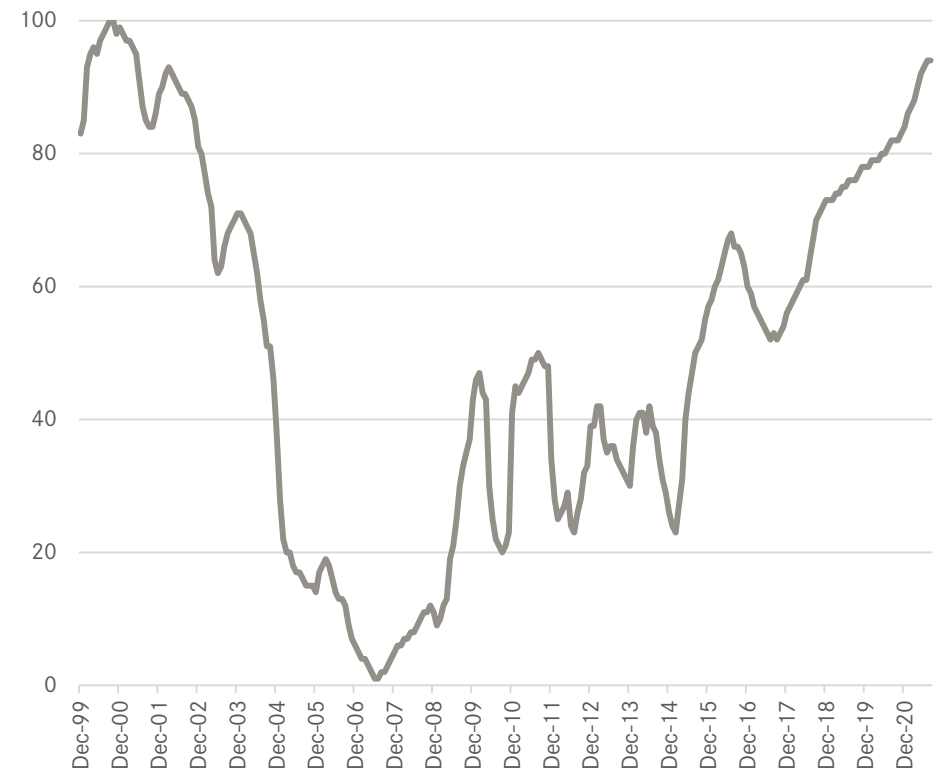
How attractive is value today?

Growth has kept getting more expensive – but value remains cheap regardless of its outperformance due to strong fundamentals.

Earnings Yield over time -Value and Growth



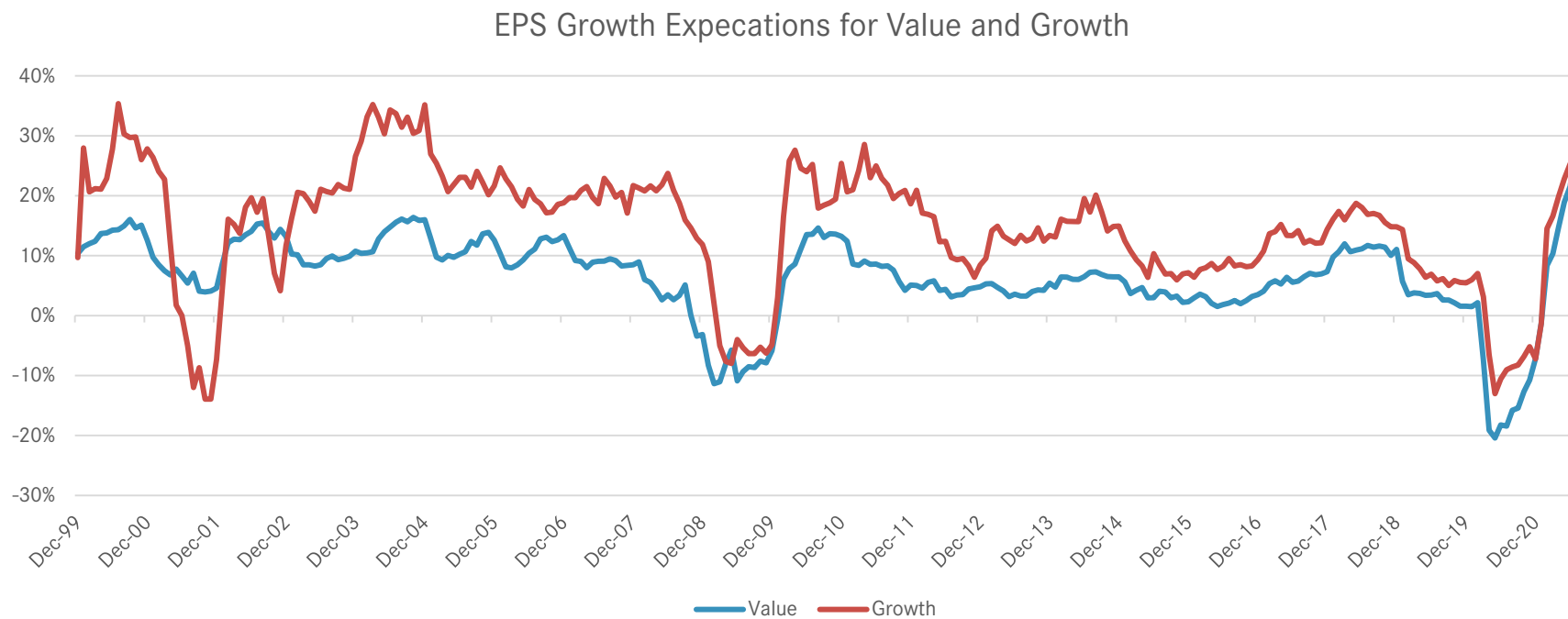
Percentile of Discount



Growth Expectations – historical contexts



Growth expectations: Value is at an all time high – with even higher expectations than a growth portfolio!

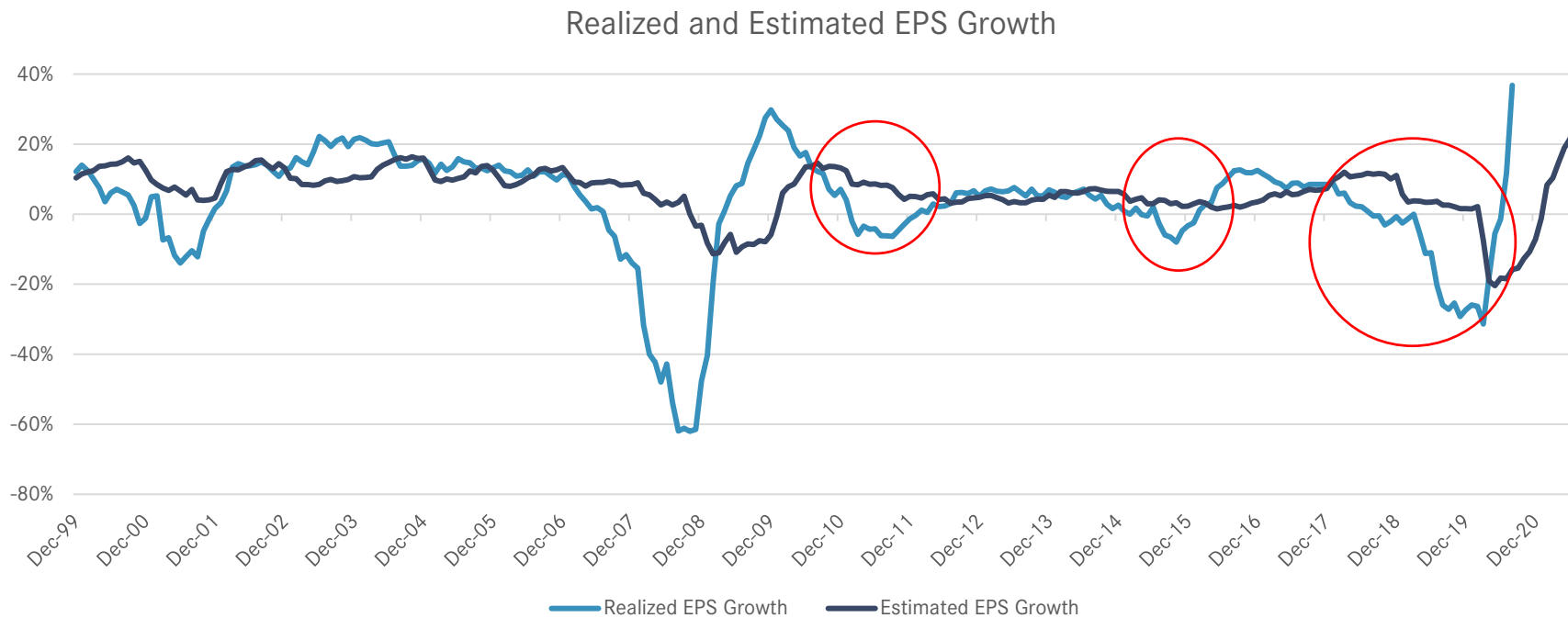




Killer: Not Meeting expectations

Realized growth versus expected growth: Turning point reached?

Value has been through some rough 3 years. Now, it seems the negative surprises are over and strong expectations are arriving.

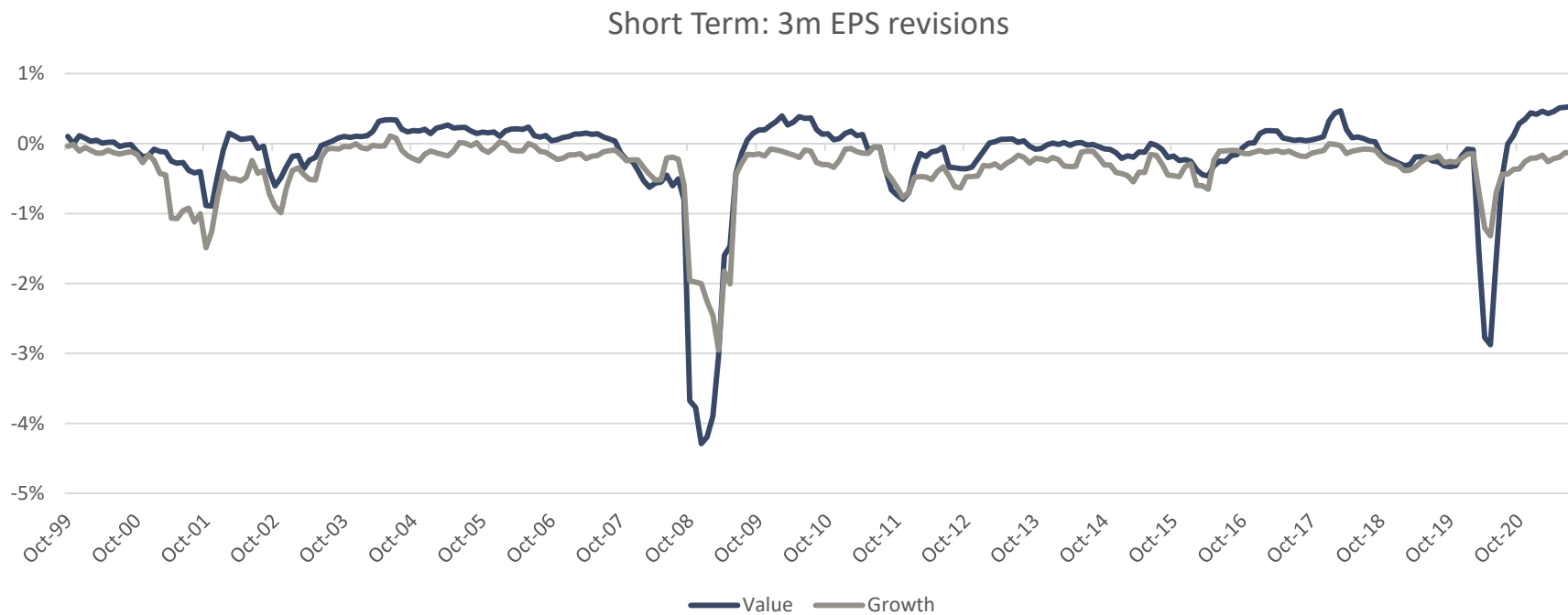




How attractive is value today?

Upgrades and revisions are at an all time high

Upgrades and revisions are at an all time high for value – but have been lagging for growth.





Conclusion Chapter 1+2

Value	Earnings Yield	Universe	Value	Growth
	Latest (31/8)	4,5%	9,5%	0,4%
	Long Term Average	5,5%	8,2%	2,7%
	Percentile Latest	16	89	7

Growth	Est Growth	Universe	Value	Growth
	Latest (31/8)	26%	35%	23%
	Long Term Average	10%	7%	15%
	Percentile Latest	100	100	82

Quality	CFROI	Universe	Value	Growth
	Latest (31/8)	10,1%	11,0%	2,5%
	Long Term Average	9,6%	10,6%	5,5%
	Percentile Latest	80	71	12

Revisions	Key Momentum	Universe	Value	Growth
	Latest (31/8)	39%	81%	-21%
	Long Term Average	-4%	4%	-17%
	Percentile Latest	100	99	16

- Underperformance of Value led to extreme valuation advantages
- All other characteristics show strong attractiveness: Growth, Quality & Revisions
- “All stars” are aligned for a sustained value comeback



Transition Matrix



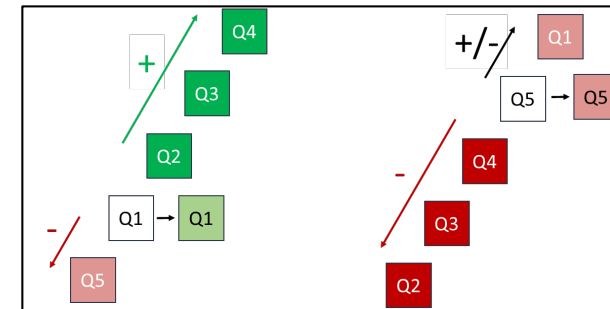
The Power of Mean Reversion

Transition Matrix: Migration und Performance after 12 months – by Quintile, LC, 1999-2017

Value Rank – Migration after 12 months:

Quintile, t=0		Q1	Q2	Q3	Q4	Q5
	Q1	53,6%	24,9%	12,2%	6,4%	2,5%
	Q2	24,8%	33,9%	24,7%	12,4%	4,8%
	Q3	12,5%	23,9%	31,0%	24,6%	9,3%
	Q4	6,7%	12,9%	23,5%	35,1%	23,3%
	Q5	2,4%	4,4%	8,7%	21,5%	60,1%

Migration Paths → Long Term:



Forward Performance (12m):

Quintile, t=0		Q1	Q2	Q3	Q4	Q5	Grand Total
	Q1	15,4%	18,5%	19,1%	20,0%	14,4%	16,9%
	Q2	8,7%	12,8%	16,2%	17,5%	15,1%	13,3%
	Q3	7,8%	9,4%	12,8%	15,7%	14,3%	12,2%
	Q4	8,1%	7,5%	9,3%	12,2%	12,4%	10,7%
	Q5	12,0%	8,7%	6,8%	9,4%	10,7%	9,9%
	Grand Total	12,2%	12,5%	13,1%	13,6%	11,7%	12,6%

Outperformance:

4,3%
0,7%
-0,4%
-1,9%
-2,7%



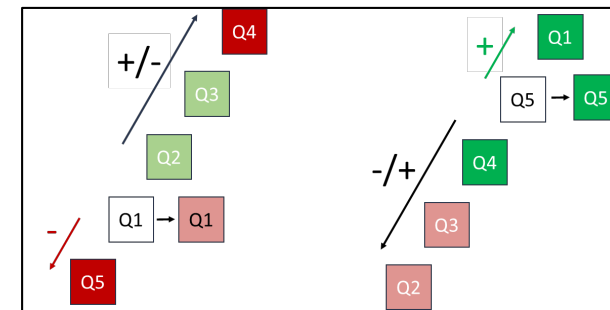
The Power of Mean Reversion

Transition Matrix: Migration und Performance after 12 months – by Quintile, LC, 2017-now

Value Rank – Migration after 12 months:

Quintile, t=0		Q1	Q2	Q3	Q4	Q5
	Q1	58,7%	22,5%	9,3%	3,7%	1,4%
	Q2	25,4%	36,6%	23,5%	9,2%	3,1%
	Q3	10,5%	26,1%	33,5%	23,1%	6,5%
	Q4	4,3%	12,0%	26,1%	38,8%	21,0%
	Q5	1,1%	2,8%	7,7%	25,2%	68,0%

Migration Paths → Last 3 years:



Forward Performance (12m):

Quintile, t=0		Q1	Q2	Q3	Q4	Q5	Grand Total
	Q1	7,1%	14,2%	14,3%	5,7%	-3,1%	9,3%
	Q2	5,3%	10,2%	17,0%	16,3%	12,6%	11,1%
	Q3	5,8%	7,2%	12,9%	18,5%	14,8%	12,0%
	Q4	10,1%	5,3%	11,5%	18,0%	16,4%	14,1%
	Q5	16,7%	12,8%	11,9%	17,6%	25,0%	21,5%
	Grand Total	6,7%	9,8%	13,6%	17,4%	21,7%	13,6%

Outperformance:

-4,3%
-2,5%
-1,6%
0,5%
7,9%



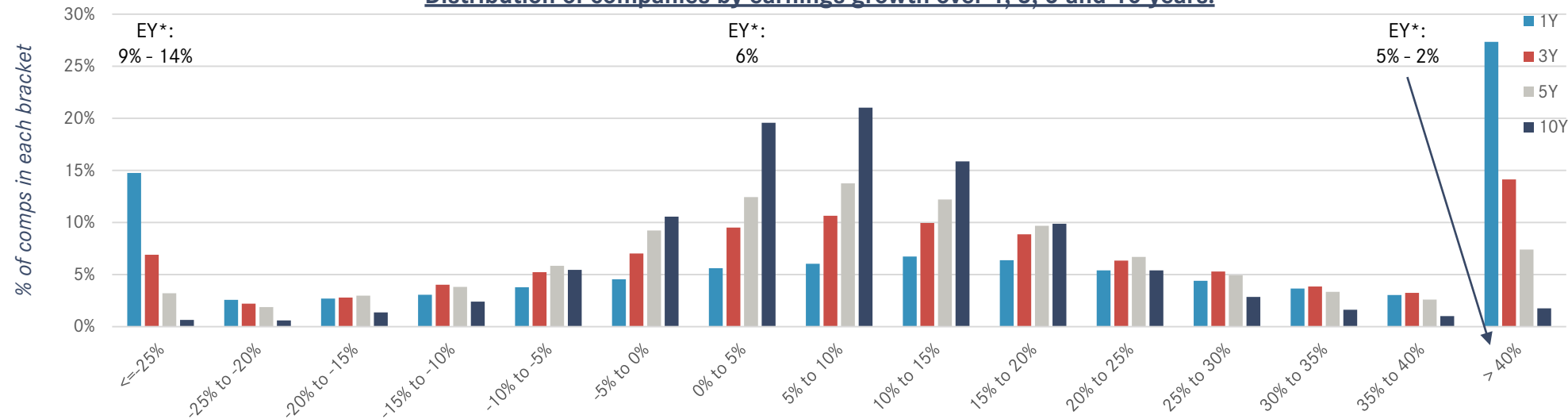
Growth Rate Distribution



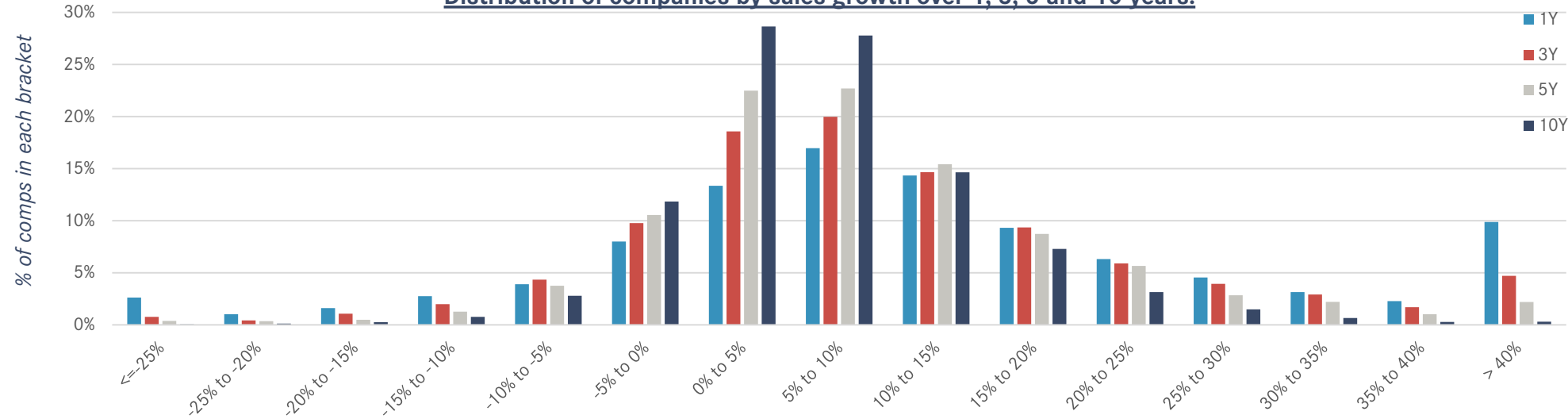
Growth Rate Distribution → Trees do not grow to the sky

Extreme growth hardly sustained throughout time

Distribution of companies by earnings growth over 1, 3, 5 and 10 years:



Distribution of companies by sales growth over 1, 3, 5 and 10 years:



Source: Capital IQ, MSCI, Lingohr & Partner. Data as of August 31, 2021. *EY = Earnings Yield (Earnings / Price)



Recovery / Value Cycle



Performance in Crisis and Recovery (I)

Sector performance in S&P500 and Stoxx600

Crisis performance

		Techbubble		GFC		Corona	
		03.2000 - 03.2003	03.2000 - 03.2003	10.2007 - 02.2009	10.2007 - 02.2009	19.02.2020 - 20.03.2020	19.02.2020 - 18.03.2020
	Sector	S&P500	Stoxx600	S&P500	Stoxx600	S&P500	Stoxx600
Cyclicals	Consumer Discretionary	-30,6%	-57,3%	-52,0%	-62,5%	-31,5%	-38,6%
	Financials	-10,5%	-42,1%	-77,0%	-76,0%	-39,9%	-43,9%
	Industrials	-26,4%	-50,3%	-59,7%	-63,7%	-39,2%	-41,9%
	Information Technology	-74,6%	-84,5%	-51,2%	-62,6%	-30,5%	-36,5%
	Materials	-9,9%	-25,0%	-54,8%	-67,6%	-33,2%	-33,9%
Defensives	Communication Services	-74,1%	-75,5%	-45,2%	-50,0%	-28,4%	-30,4%
	Consumer Staples	9,7%	-0,6%	-32,2%	-45,2%	-20,7%	-23,6%
	Energy	-12,6%	-21,1%	-44,4%	-50,4%	-52,9%	-51,5%
	Health Care	-5,4%	-24,3%	-36,7%	-38,2%	-24,3%	-23,2%
	Utilities	-38,7%	-35,5%	-40,9%	-55,5%	-32,3%	-30,5%

3 years later

		Techbubble		GFC	
		03.2003 - 03.2006	03.2003 - 03.2006	02.2009 - 02.2012	02.2009 - 02.2012
	Sector	S&P500	Stoxx600	S&P500	Stoxx600
Cyclicals	Consumer Discretionary	46,4%	111,7%	139,9%	91,3%
	Financials	56,1%	138,4%	92,9%	48,9%
	Industrials	71,5%	170,2%	114,5%	83,2%
	Information Technology	53,6%	106,1%	118,5%	65,4%
	Materials	77,0%	162,4%	99,3%	117,3%
Defensives	Communication Services	44,9%	56,3%	31,8%	16,9%
	Consumer Staples	27,7%	71,7%	58,1%	77,8%
	Energy	121,2%	106,0%	68,2%	49,4%
	Health Care	17,9%	81,4%	56,3%	57,1%
	Utilities	67,4%	122,8%	36,0%	-9,7%



Performance in Crisis and Recovery (II)

Style performance in S&P500 and Stoxx600

Crisis performance

		Techbubble		GFC		Corona	
		03.2000 - 03.2003		10.2007 - 02.2009		19.02.2020 - 20.03.2020	
Style	Factor	S&P500	Stoxx600	S&P500	Stoxx600	S&P500	Stoxx600
Growth	1Y Change Revenue	-44,4%	-69,1%	-55,4%	-68,5%	-32,4%	-38,8%
Momentum	12M-1M Price Momentum	-36,9%	-50,2%	-56,2%	-59,8%	-30,2%	-36,3%
	Key Momentum	-47,0%	-37,0%	-55,3%	-64,6%	-34,7%	-38,7%
Quality	Return on Invested Capital	-7,4%	-45,4%	-49,0%	-59,8%	-28,9%	-33,7%
Size	Market Cap	-49,9%	-48,5%	-51,7%	-60,9%	-27,5%	-36,1%
Value	Book to Price	-3,0%	-32,3%	-66,1%	-72,6%	-46,6%	-43,5%
	Free Cash Flow Yield	23,1%	-7,3%	-59,4%	-67,3%	-37,8%	-41,9%

3 years later

		Techbubble		GFC	
		03.2003 - 03.2006		02.2009 - 02.2012	
Style	Factor	S&P500	Stoxx600	S&P500	Stoxx600
Growth	1Y Change Revenue	112,4%	146,1%	102,2%	74,3%
Momentum	12M-1M Price Momentum	92,4%	132,2%	68,9%	68,4%
	Key Momentum	108,4%	149,6%	75,8%	77,1%
Quality	Return on Invested Capital	63,8%	136,3%	107,8%	118,0%
Size	Market Cap	51,4%	114,7%	77,0%	58,4%
Value	Book to Price	137,7%	201,5%	213,7%	97,2%
	Free Cash Flow Yield	131,7%	191,6%	178,8%	139,2%

- Historically, Value outperformed most recoveries
- When recessions are induced due to a bubble bursting, the outperformance of Value increases further
- Valuation of cyclical stocks reflect negative scenarios quickly, however they also tend to recover disproportionately better

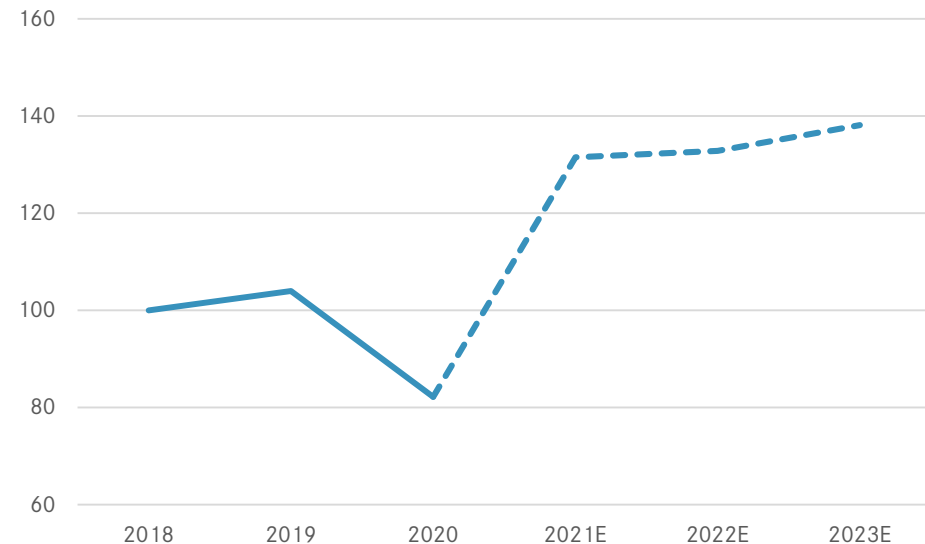


Pro-Value Periods over the last 50 years

From history we derive a long and durable value cycle

Pro-Value Cycles	Value ¹	Market ²	Relative Performance	# Months
Jul '73-Mar '78	134.8%	7.6%	127.2%	57
Dec '80-Aug '88	414.7%	150.3%	264.4%	93
Nov '90-Aug '95	248.4%	117.1%	131.3%	58
Mar '00-Feb '07	190.6%	13.7%	176.9%	84
Dec '08-Jun '14	250.3%	142.8%	107.5%	67
Feb '16-Jan '17	40.2%	19.6%	20.6%	12
Average	213.2%	75.2%	138.0%	62
Cycle To Date				
Oct '20-Mar '21	60.3%	21.0%	39.4%	6

EPS growth since 2018



- Value continues to exhibit large valuation discounts versus the market (and other styles)
- Comparable (double-digit) growth, however at >30% discount to the market
- Fundamental recovery of current holdings expected as early as by year-end 2021



13 Years Anti-Value + Corona

Time for sustained Value Comeback



- 01 Corona + historic underperformance increased risk taking in tech- and quality stocks while ignoring fundamentals of value stocks
- 02 Recovery periods have always been the best environment for value stocks
- 03 Facts clearly speak for value while fiction keeps the market hoping for stories to unfold

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