

## Monthly Report July 2020

**Stock market** Mixed  
**Performance** Outperformance  
**Investments** Invested  
**Outlook** Better

### Markets

The Organization for Economic Cooperation and Development (OECD) and the G-20 want to harmonize company taxation worldwide. The campaign runs under the title "Beps" (Base Erosion and Profit Shifting). In other words, the aim is to counteract erosion of the tax base (in high-tax countries). In the future, large international companies will be required to determine how much profit they must or may tax in which country. To this end they will be forced to provide insight into their business figures broken down by country. A second wave is now underway against tax competition. Under the title "Beps 2.0", it is about the question of how digital services are to be taxed and also about setting minimum taxes. The discussion suddenly expanded to other industries such as German chemical companies or French luxury goods groups. Countries with large sales markets and extensive imports are now demanding more competences for the taxation of companies operating on their territory. The market economies demand the new taxation competences as a premium for access to their markets, which has the effect of a new form of protectionism on international trade. Countries with strong manufacturing and export industries and a small domestic market would lose out in this context. Even Germany could lose. Pharmaceutical companies or mechanical engineering firms would have to pay taxes abroad on their sales there, and at home these taxes would be missing!

### Performance

In volatile markets, the price of Formulafirst Ltd. gained 2.46% in July. The MSCI Europe lost 1.52%. The resulting outperformance of Formulafirst Ltd. compared to the MSCI Europe is 3.98 percentage points for the month of July 2020. Since the beginning of 2020, an outperformance of 4.34 percentage points has resulted.

### Investments

COVID-19 has led to a high demand for drugs at Fresenius SE's Kabi facility and thus to high capacity utilization, for example for propofol (anesthetics). Thanks to high investments in production capacities in 2018 and 2019, Kabi was able to ensure the availability of the required drugs at a stable price. As a result, Kabi is gaining a very positive image and the trust of its customers (strengthening customer loyalty). In Q1, Kabi's growth in Europe was 10%, twice as strong as in North America. This is due to the fact that COVID-19 broke out earlier in Europe than in North America. In Q2, the catch-up effect of North America should become visible. SuccessFactors from SAP SE was transferred from the Oracle database to HANA, which resulted in a 3-digit million EUR amount of cost savings. The same change was also made at Ariba. The goal is to achieve a cloud gross margin of 75% in 2023 (today 69.3%). Scaling the business by generating more revenue with more customers. The Services business increased its segment margin by 6.7 percentage points to 9.9% compared to the prior year quarter due to very high utilization of SAP consultants who are migrating new customers to S/4 HANA. The gross margin in Services increased from 20.3% in Q1 2019 to 22.8% in Q1 2020. This is considered a good consultant margin. Of the 35,000 SAP customers, only 14,100 have migrated to S4/HANA.

### Outlook

The US election campaign and the resurgence of viral infections in the US are likely to direct the attention of equity investors increasingly towards Europe, including German stocks. It appears that these countries have COVID-19 well under control. In addition, the ECB is pursuing an aggressive monetary policy, which is reflected in the sharp rise in total assets. The EU will provide another EUR 750 bn in addition to the EUR 540 bn fiscal stimulus. This amount of approximately EUR 1.3 trillion is a significant help for the member countries, which for their part have also set up their own stimulus programs. These should boost the economy and thus the results of companies, with the corresponding positive impact on the equity markets.

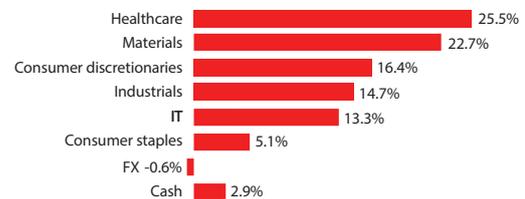
### Performance as of July 31, 2020

Net Asset Value	July 2020	2020	3 years	Since inception
CHF 27.53	2.46%	-11.05%	-13.94%	4.29% p.a.

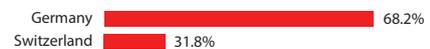
### Share price development as of July 31, 2020 (indexed)



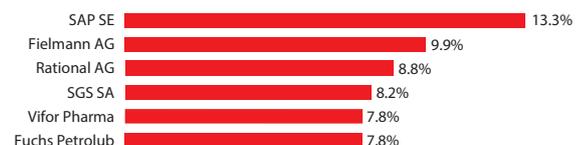
### Breakdown by sectors



### Country Breakdown



### The largest positions



# Formulafirst – investing in “smart owners”

## Formulafirst: the concept

### Investment idea

Experience shows that owners generally invest more successfully than employees. The Investment company Formulafirst focuses on Smart Owners as they are known. The investment universe consists of owner-managed companies in Central Europe (D-A-CH).

Owner-managed companies and those that are controlled by owner-oriented groups of investors are generally distinguished by their consistent strategy of long-term and sustainable growth. Since owner-managers have a substantial share of their wealth and, in most cases, of their working time invested in the company, their strategic business orientation includes goals such as maintaining the company's independence, a smooth transfer to the next generation as well as safeguarding and growing the company's assets. The long-term perspective, in some cases spanning several generations, is a major reason why these companies are more focused on their long-term strategic positioning rather than on the short-term maximization of returns.

### Investment criteria

For owner-managed companies to be included in the investment universe of Formulafirst, the following conditions must be met: a) headquarters in Central Europe (Switzerland, Austria and Germany), b) listed on an regular stock exchange, c) minimum market capitalization of EUR 100 million, d) managed by owner-managers holding at least 15% but no more than 75% of voting rights. The universe of owner-managed companies from which the best stocks are picked by Formulafirst for investment includes the 50 such companies with the highest market capitalization.

The companies selected form the basis for Formulafirst's investments.

### Investment strategy

Made up of the 50 owner-managed companies the investment universe is screened by a thorough fundamental analysis in a primarily “bottom-up” approach and the most promising stocks are identified.

Formulafirst invests in equities convertible instruments, options (managing existing positions), futures (to hedge currency and market risks) and shares of holding companies and funds. Investment exposure is 100% of company assets. The investment horizon is long-term and the selection of portfolio positions is limited to a reasonable number. The size of individual investments may not exceed 10% of the portfolio when purchased (cost). The investment style is primarily based on the “value” approach and investments are made in an anti-cyclical manner. The maximum sector weighting in the portfolio should not exceed 30%.

### NAV and performance calculation

The Net Asset Value (NAV) of the Company is equal to the total assets less total liabilities of the Company (determined on the basis of International Financial Reporting Standards, consistently applied). The NAV per share is calculated by dividing the NAV by the amount of outstanding shares of the Company on the calculation day of the NAV. The monthly, year-to-date as well as the 3 year performance are calculated by dividing the actual NAV per share by the NAV per share a month ago (26.87), at the previous year end (30.95) respectively 3 years ago (31.99). The performance since inception (18 December 2002) reflects the annualized yield since 18 December 2002 till today, using a start NAV of CHF 13.-.

## Smart Owners consistently outperform the market (indexed)



## Company details

**Company:** Formulafirst Ltd., British Virgin Islands

**Board of Directors:** Derek P. Baudains, Paul Broxup, Markus Gresch

**Investment manager:** Ztrade group Ltd., Zug

**Management team:** Sammy Matter, Martin Treffer, Daniel Biedermann

**Auditors:** PricewaterhouseCoopers, Zürich

**Corporate structure:** Public limited company

**Inception:** 18.12.02

**Type of stock:** bearer shares

**Shares outstanding:** 665,205

**Market capitalization:** CHF 19 mn

**Listing:** Swiss Exchange SIX

**Fees:** Management fee of 1.5% p.a., Performance fee 20% current hurdle at CHF 33.19

**Security number:** 146 29 83

**Reuters:** FFI.S

**Bloomberg:** FFI SW Equity, FFI SW Equity NAV

**Net asset value:** Website daily, Wednesday/Saturday in FuW (Finanz und Wirtschaft)

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**Investor relations:** Dynamics Group Ltd. Alexandre Müller Tel.: +41 43 268 32 32

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