

Portfolio Review continued



CATALYSTS TO UNLOCK & GROW VALUE

At Asset Value Investors we have followed the same distinct strategy since 1985. We invest in:

1. Durable businesses that will grow in value;
2. Trading at discounted valuations;
3. With catalysts to unlock and grow value.

Over the last year FEMSA, the Mexican family-controlled holding company, has been one of our strongest performers, taking considerable steps to unlock the sum-of-the-parts discount at which it trades.

The group structure – which entailed listed stakes in Heineken and Coca Cola FEMSA, the world's largest coke bottling business, as well as an array of smaller unlisted assets – was overly complex and highly inefficient. As such FEMSA traded at a meaningful conglomerate discount, which expanded as group complexity increased, and investors grew frustrated at the non-sensical structure.

In 2022 FEMSA announced a “comprehensive strategic review”, which led us to increase our position.

In February 2023, the company concluded its strategic review, announcing plans to simplify the group structure, monetise non-core assets and refocus on its core business. Most importantly, the company announced plans to exit its stake in Heineken, which prior to the announcement was worth some \$7.4bn, or c.28% of FEMSA's market cap.

Following two accelerated book builds in February and May, FEMSA has now fully exited Heineken (bar €500m of shares underlying an exchangeable bond). In addition, FEMSA announced the sale of Jetro Restaurant Depot for \$1.4bn and in August it was announced that Envoy Solutions would merge with BradyIFS, as a first step in FEMSA exiting the business, with a \$1.7bn cash inflow and a 37% stake in the combined entity.

We believe the simplified structure is likely to attract a lower conglomerate discount, and the company has “excess” capital approaching 20% of its market cap, which we are encouraging management to return to shareholders in the form of buybacks.