

HÉRENS QUALITY ASSET MANAGEMENT

Research generated performance

Hèrens Case Study Series:

Quality vs Non-Quality: Case Study

WEBINAR March 12th, 2025

Signatory of:



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Dates & Topics

Hérens Quality CEA Webinar Series 2025



March 12th, 2025

10:00-10:30

Quality vs Non-Quality: Case Study

April 9th, 2025

10:00-10:30

Internet Security – IT Security

More information: www.hqam.ch <https://ce-award.com/>

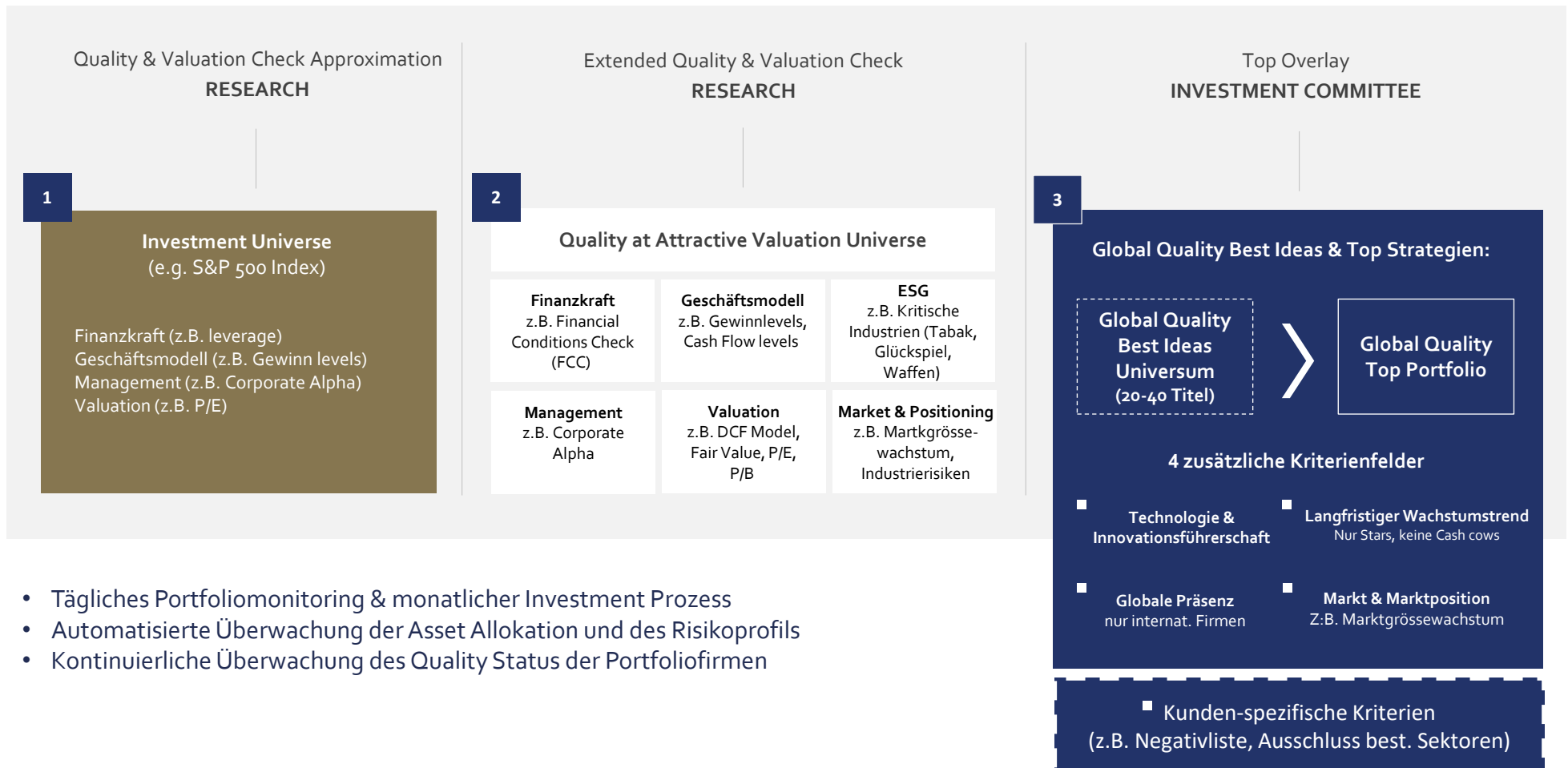
Registration link: <https://attendee.gotowebinar.com/rt/7313309661842537567>



Portfolio Title Analysis

Investment Prozess - Kein Stockpicking, sondern Investmentsystematik in Form eines disziplinierten monatlichen Investment Prozesses

Das Modell schliesst systematisch Non-Quality Unternehmen aus und unser IC selektiert anschliessend die Besten der Besten basierend auf unserem Research



- Tägliches Portfoliomonitoring & monatlicher Investment Prozess
- Automatisierte Überwachung der Asset Allokation und des Risikoprofils
- Kontinuierliche Überwachung des Quality Status der Portfoliofirmen

Wie definieren wir unsere «Quality at Attractive Valuation» Investment Strategie?

Quality Charakter: exzellente Bilanz, überdurchschnittliche Profitabilität, erfahrenes Management und attraktiv bewertet



Ausserordentlich starkes **Finanzgerüst**
(starke Bilanz, konservative Finanzierung)



Effektive **Kapitalallokation**



Bewährtes **Geschäftsmodell & attraktive Märkte**



Kompetentes und stabiles **Management**
(oft mit starkem Aktionariat (z.B. Familie))



Attraktive Bewertung

- Weniger abhängig von Krediten
- Real Optionen bez. Wachstum & Akquisitionen
- Profitabilität weniger volatil
- Nachhaltige Rendite, welche über den Kapitalkosten liegt
- Hervorragende Marktpositionierung und Profitabilität
- Fähigkeit schwierige Marktphasen besser zu meistern
- Weniger Risiko v.a. mittel- und langfristig
- Höheres „upside“ Potential

**Hérens Quality Ihr Partner für transparente und systematische Quality
Investitionen seit 20 Jahren**

Introduction & Investment Context

Investment philosophy: Focus on companies with strong moat, pricing power, financial strength, and shareholder-friendly governance

Luxury industry overview:

- Encompasses high-end goods and services catering to affluent consumers who prioritize quality, exclusivity, and brand prestige over price sensitivity.
- Global luxury market is valued at ~€1.5 trillion (2024) and is expected to grow at 5-7% CAGR over the next decade.
- Luxury Personal Goods (fashion, accessories, watches, beauty) account for ~€400 billion of this market.
- Growth is driven by emerging markets (China, Middle East, India) and younger consumers (Millennials & Gen Z).
- Shift towards ultra-luxury and timeless goods.

Case Study: Despite both being luxury brands, **Hermès is a true compounder and a Quality stock**, while **Burberry is Non-Quality** and a turnaround story of many years

Source: Hérens Quality AM

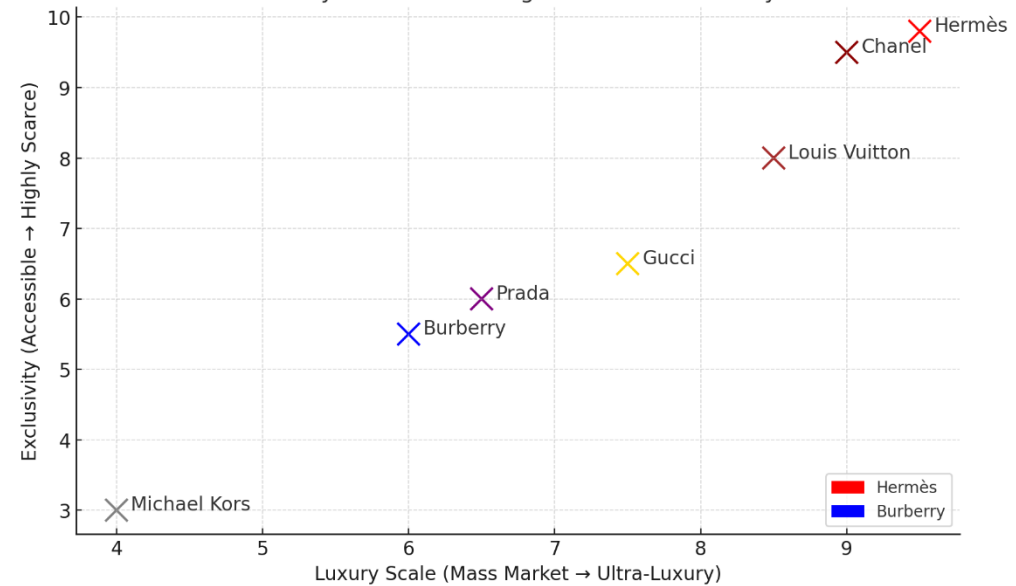


VS



Business Model & Brand Positioning

Luxury Brand Positioning: Hermès vs. Burberry



Source: Hérens Quality AM,



Ultra-luxury, scarcity-driven: Limited production, long waitlists

Handcrafted production: No reliance on trends, low SKU churn

Exclusivity > volume → controlled demand

Aspirational luxury: Larger customer base, frequent seasonal collections

High SKU turnover: More vulnerable to changing trends

More discounting to drive sales

Revenue Growth & Business Performance (2014-2024)

Revenue CAGR (2014-2024):

- Hermès: **+12.1% CAGR**
- Burberry: **+3.5% CAGR**
- Global luxury market **~6% CAGR**

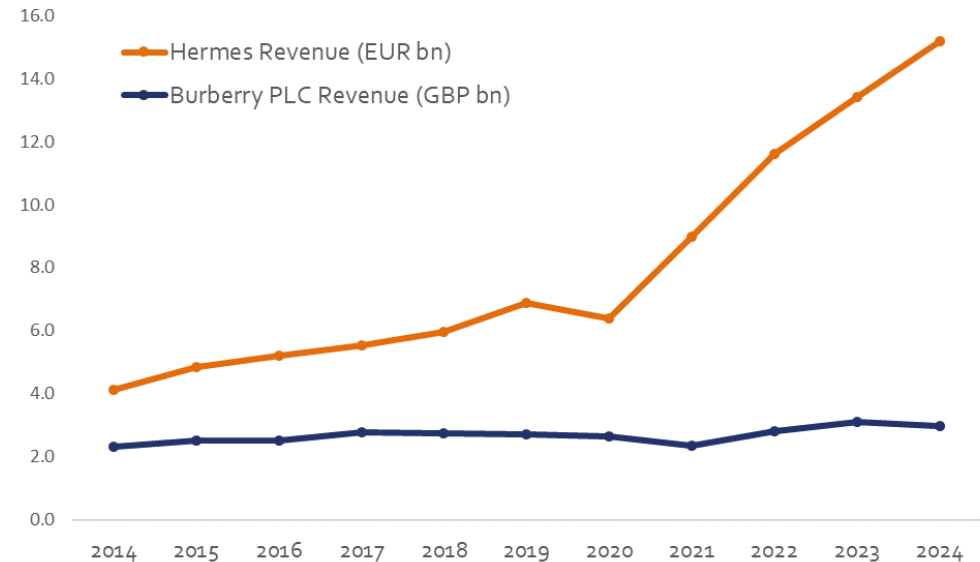
Price vs. volume growth:

- Hermès: Primarily price-led, steady volume growth
- Burberry: More reliant on volume expansion

Retail Store Efficiency & Productivity:

- Hermès stores generate much higher sales per square meter : High sales density + premium pricing = greater operational efficiency and profitability per store
- Burberry, due to a broader product range and a less exclusive positioning, faces higher markdown pressures and inventory management challenges

Revenue Development (2014-2024):
Hermes vs Burberry



Source: Hérens Quality AM, Reuters

Profitability & Margins

Operating Margin (2024):

- Hermès: **40.5%**
- Burberry: **14.1%**

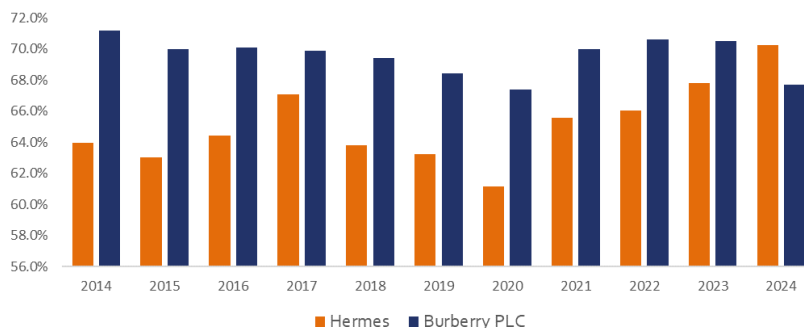
Gross Margin (2024):

- Hermès: **70.3%**
- Burberry: **67.7%**

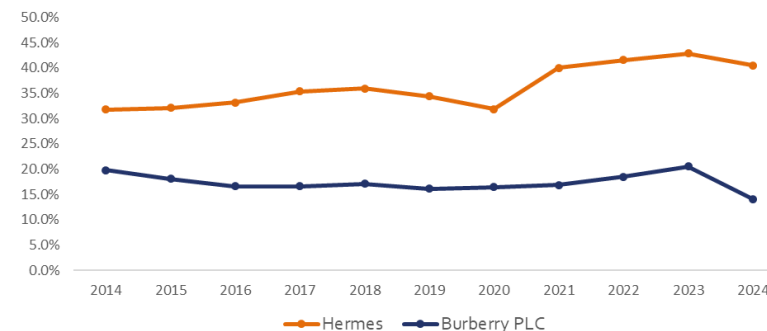
Why with comparable Gross Profit Margin, Operating Margin of Hermes is two times higher?

- **Hermès has a highly vertically integrated model.** The company owns most of its production facilities, ensuring control over quality and costs. Burberry relies more on outsourced manufacturing, leading to higher costs and lower margins.
- **Burberry spends significantly more on advertising and promotional activities** relative to revenue, as it competes in a more crowded segment of the luxury market. **Hermès, in contrast, spends much less on marketing** because its brand equity is built on exclusivity, word-of-mouth, and heritage.
- **Hermès derives most of its revenue from leather goods** (above 50% of total revenue), which has extremely high margins. **Burberry has a much higher proportion of revenue from apparel (64%),** which has lower profit margins due to higher production costs and seasonal demand fluctuations.
- **Hermès stores generate much higher sales per square meter** compared to Burberry.

Gross Profit Margin comparison (2014 - 2024)



Operating margin comparison (2014-2024)



Source: Hérens Quality AM, Reuters

Balance Sheet Strength and Capital Allocation

Net cash position (2024):

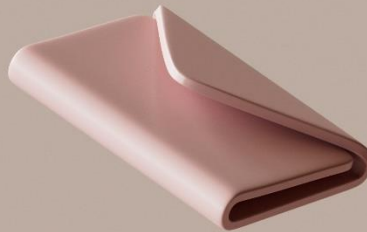
- Hermès: €44.6 bn net cash
- Burberry: £ 441 m net cash

Debt levels:

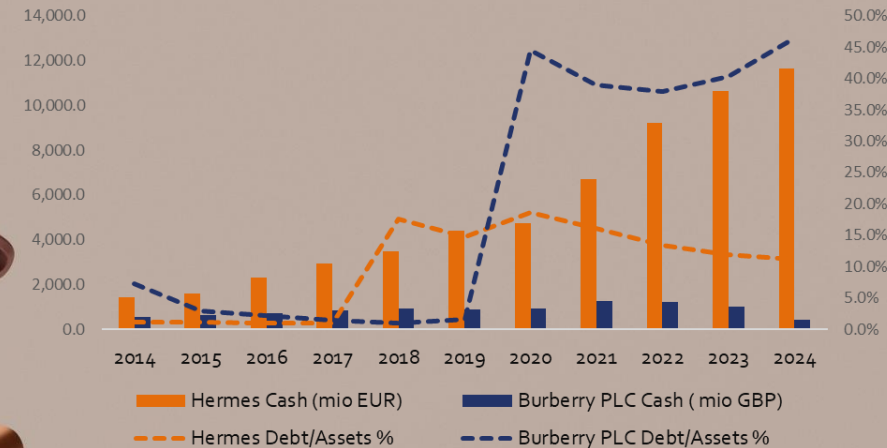
- Hermès: Minimal debt (~11% of BS)
- Burberry: More leveraged (~47% of BS)

Capital allocation strategy:

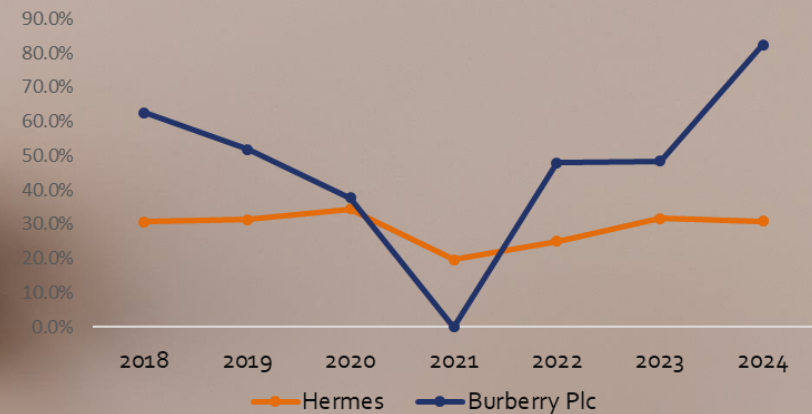
- Hermès: follows a conservative and long-term capital allocation strategy, prioritizing **organic growth, vertical integration, and financial stability**
- Burberry: follows a more dynamic and aggressive capital allocation approach, balancing **growth investments, digital transformation and brand repositioning**



Balance Sheet metrics (2014-2024)



Dividend payout (2018 - 2024)



Hérens Quality AM, Reuters

Total Shareholder Return (TSR) Comparison (2014-2024)

Total Return Performance EUR (01.01.2014-31.12.2024):



- Hermès: +896%
- Burberry: -14%
- MSCI World: +281%



- follows a stable and conservative dividend policy that focuses on gradual growth, financial prudence, and long-term sustainability
- maintains a relatively low payout ratio (typically around 30-40%), ensuring retained earnings for reinvestment in operations
- unlike many luxury companies, Hermès occasionally distributes special dividends when cash reserves are strong (e.g. in 2022 & 2024)

- follows a more aggressive dividend policy, balancing higher payouts with active share buybacks.
- dividend payout ratio often exceeds 50% of net income, reflecting a greater emphasis on returning cash to shareholders rather than reinvesting all earnings into the business
- while Burberry aims for progressive dividend growth, it has been more volatile compared to Hermès (e.g. suspended dividends in 2021)
- unlike Hermès, Burberry frequently repurchases its own shares to enhance shareholder value (e.g. in 2024, spent £400 mio).

Source: Hérens Quality AM, Reuters

Management & Shareholder Structure



Hermès:

- **Family-controlled (~66% ownership)** → Long-term stability
- **CEO tenure:** 20+ years, strategic consistency
- Between 2014 and 2024, Hermès International was led by Axel Dumas, a sixth-generation member of the Hermès-Dumas family

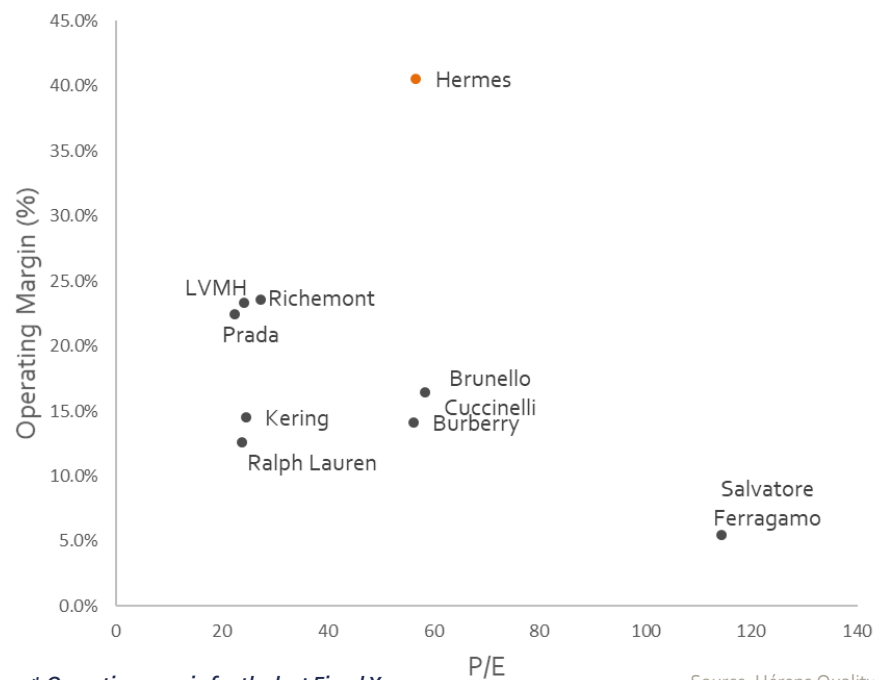
Burberry:

- Major Shareholders predominantly institutional investors
- **Higher external investor pressure** → **short-term decisions**
- **More frequent CEO changes**
- e.g., Christopher Bailey (2014-2017), Marco Gobetti (2017-2021), Jonathan Akeroyd (2022-2024)



Why the premium for Hermès?

- Hermès is seen as a **“forever stock”** in the luxury sector — a rare blend of consistent growth, high margins, financial resilience, and brand power
- This justifies its premium valuation compared to peers like Burberry, which operates in a more competitive, trend-driven, and cyclical segment of the luxury market.





Why Hermès is a high-Quality firm:

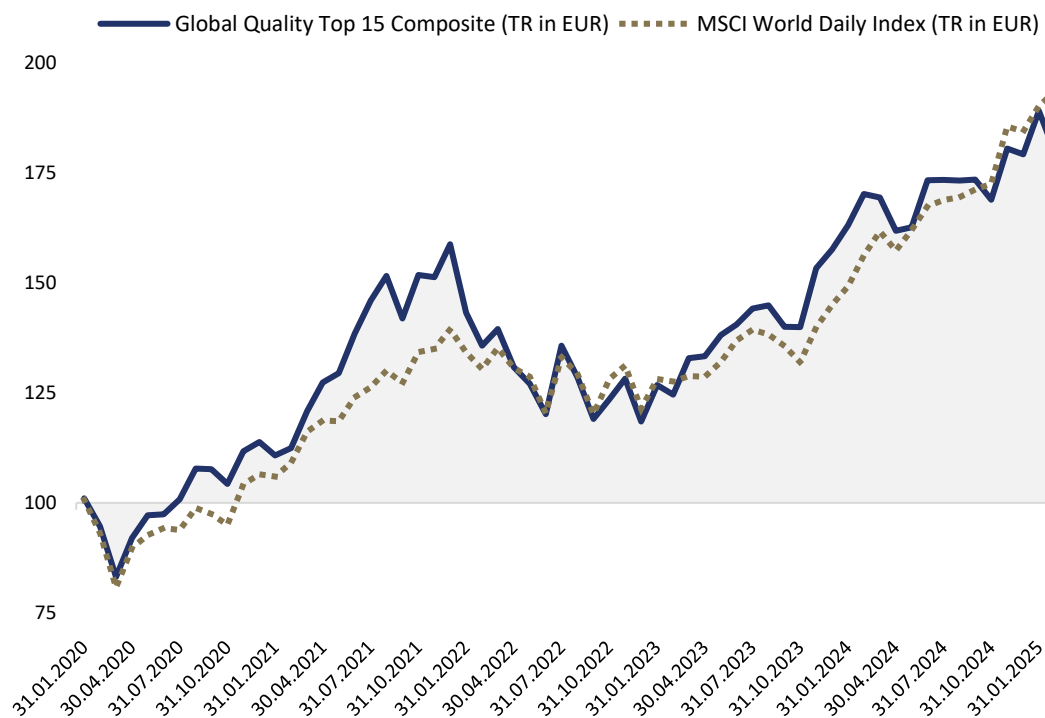
- Ultra-luxury, controlled supply
- Extremely high pricing power, price hikes with no impact on demand
- Highly resilient revenues, independent of fashion cycles
- Relatively low risk profile due to exclusivity and demand predictability
- Ultra-strong balance sheet, conservative financing
- Better capital allocation
- Superior TSR & stable management and shareholding

Why at this point of time Burberry is not:

- Cyclical, more volume-dependent growth
- Medium pricing power, some reliance on discounting
- More cyclical, trend-driven
- Weaker financials & capital efficiency
- High management turnover & external shareholder pressure
- Valuation discount reflects structural issues

Double Digit Performance of the Global Quality Top 15 Composite since inception

Global Quality Top 15 Composite Performance in EUR (01.01.2020– 28.02.2024)

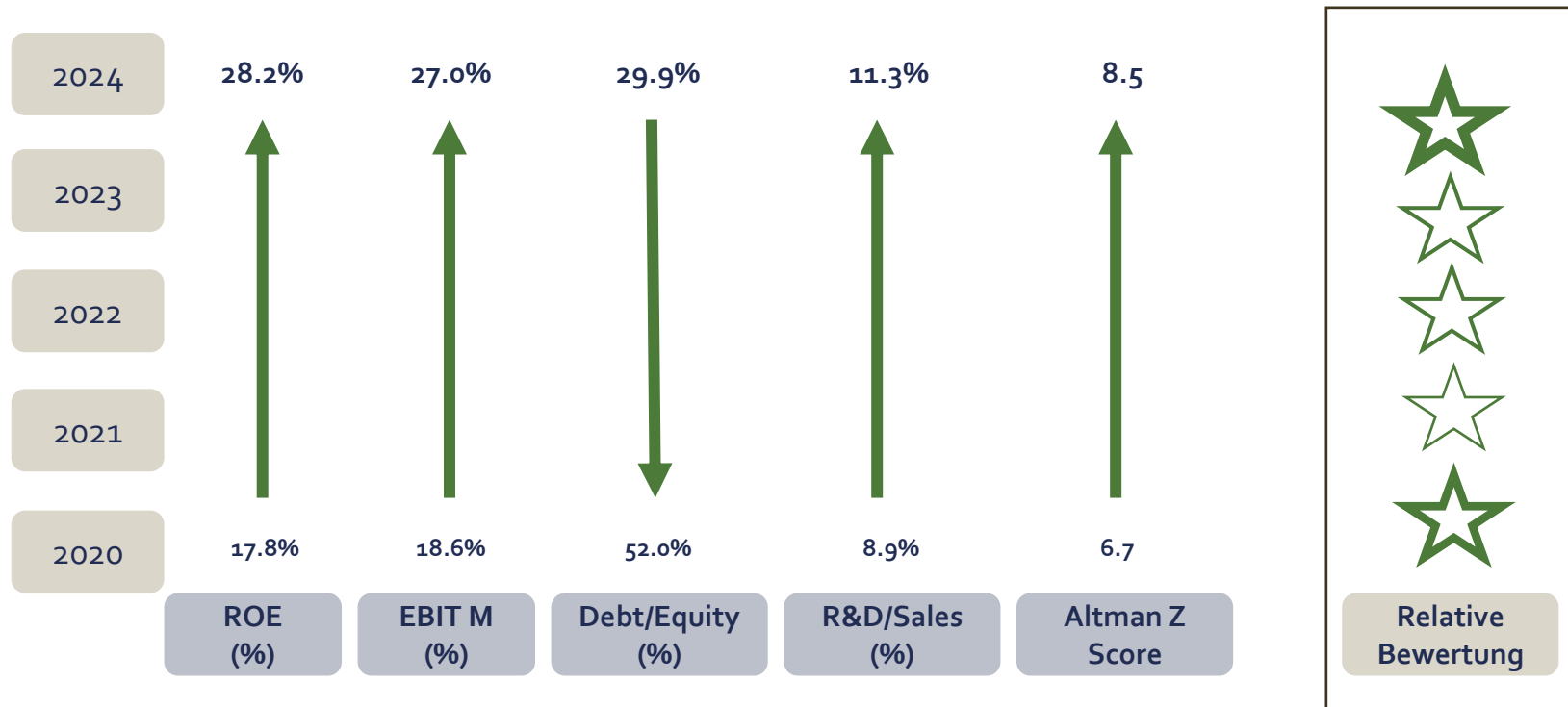


	Portfolio	Benchmark	Difference*		
YTD	0.2%	5.0%	-4.8%		
2024	13.7%	27.2%	-13.5%		
2023	33.1%	19.4%	13.7%		
2022	-25.4%	-12.9%	-12.5%		
2021	39.5%	31.0%	8.5%		
2020	13.8%	6.5%	7.3%		
2 year p.a.	20.1%	23.2%	-3.1%		
3 year p.a.	9.8%	14.1%	-4.3%		
Since Inception p.a.	12.8%	13.6%	-0.8%		
Alpha	-1.8%	Beta	1.10	Tracking Error	8.2%
Informatin Ratio	-0.12	Volatility	18.1%	Sharpe Ratio	0.52

Portfolio performance: Gross TR (excl. transaction and management costs, dividends re-invested).
Source: Hérens Quality AM, Reuters

Die aktuellen fundamentalen Kennzahlen des Global Quality Top 15 Portfolios sind aus historischer Sicht am stärksten

Ausgewählte fundamentale Kennzahlen (zum 31.12. des jeweiligen Jahres)



Kontinuierliche Verbesserung der Eigenkapitalrendite und der operativen Margen in den letzten fünf Jahren

Die 15 führenden Unternehmen konzentrieren sich heute mehr denn je auf Innovation

Solvenzquoten bleiben auf einem sehr gesunden Niveau

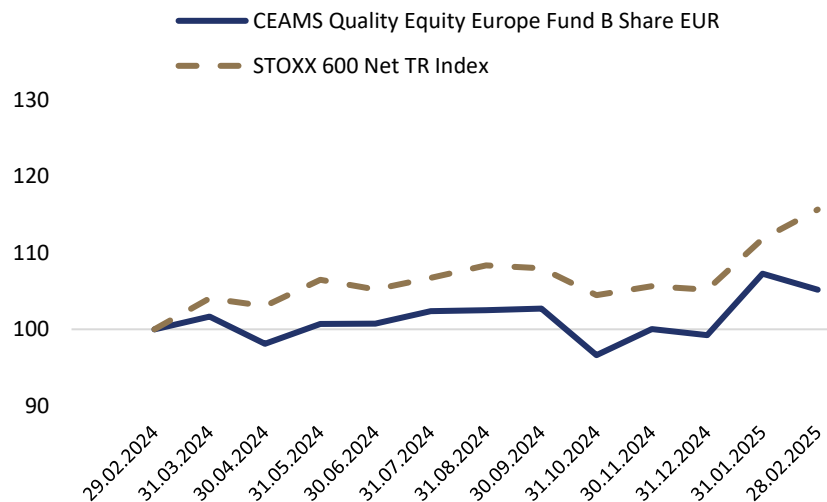
Relative Bewertung im Vergleich zum MSCI World ist die attraktivste seit fünf Jahren

HQAM Quality Equity Funds (per 28.02.2025)



CEAMS Quality Europe Equity Funds:

- Lancierung: 1. Oktober 2004
- Rechtsform: Luxemburger UCITS
- Fondswährung: EUR
- ISIN: LU0199669259 (B-Share)

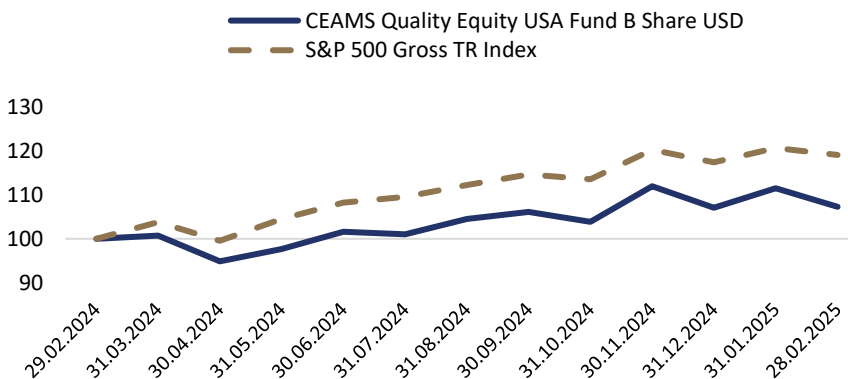


	Fonds	Index
YTD	6.0%	10.0%
2Y p.a.	9.5%	12.9%
3Y p.a.	4.1%	10.0%
5Y p.a.	7.4%	10.8%



CEAMS Quality USA Equity Funds:

- Lancierung: 1. Oktober 2004
- Rechtsform: Luxemburger UCITS
- Fondswährung: USD
- ISIN: LU0199670695 (B-Share)



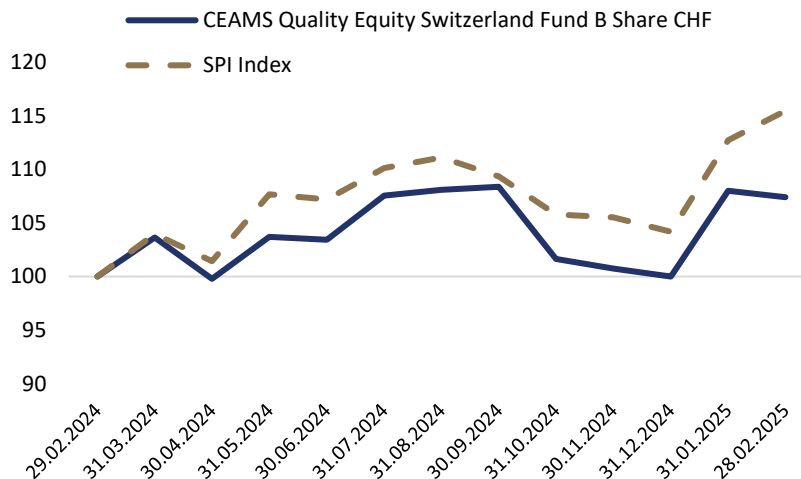
	Fonds	Index
YTD	0.2%	1.4%
2Y p.a.	18.6%	24.3%
3Y p.a.	6.8%	12.7%
5Y p.a.	10.6%	16.9%

HQAM Quality Equity Funds (per 28.02.2025)



CEAMS Quality Switzerland Equity Funds:

- Lancierung: 1. Oktober 2004
- Rechtsform: Luxemburger UCITS
- Fondswährung: CHF
- ISIN: LU0199667808 (B-Share)

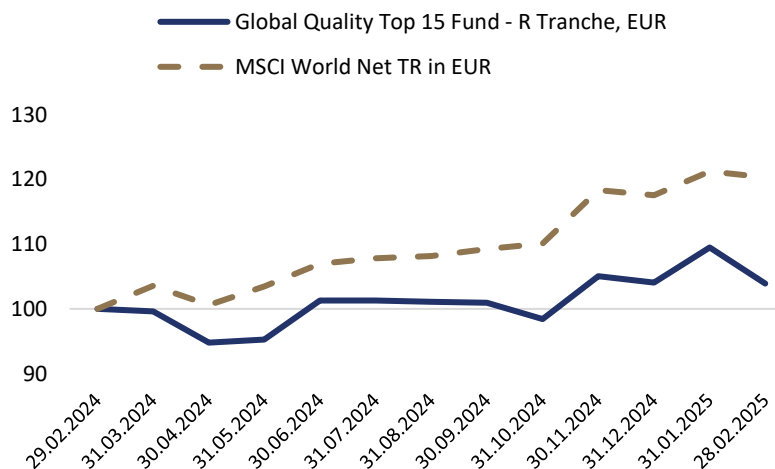


	Fonds	Index
YTD	7.4%	10.8%
2Y p.a.	6.9%	9.5%
3Y p.a.	0.0%	4.2%
5Y p.a.	5.2%	7.6%



Global Quality Top 15 Funds:

- Lancierung: 1. Oktober 2019
- Rechtsform: AIF
- Fondswährung: EUR
- ISIN: DE000A2PF086 (R-Share)



	Fonds	Index
YTD	-0.1%	2.3%
2Y p.a.	18.3%	21.4%
3Y p.a.	8.3%	13.1%
10.19-02.25	11.0%	13.5%



Hérens Quality Asset Management:
PIONEER for international Quality Investments

HQAM at a glance

**100% entrepreneurial
driven**

Supervised by FINMA since 2008
& BAFIN authorization since 2011

**Pioneer for international
systematic Quality
investments**

(20% private clients &
80% institutional clients)

**100% independence in analysis
& investment decisions**

Achieved alpha in each
region since inception



Team
Pfäffikon SZ

27 team members

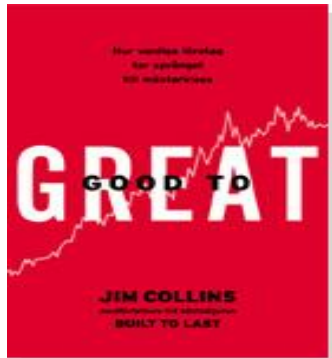
In-house Research Team
since 2004



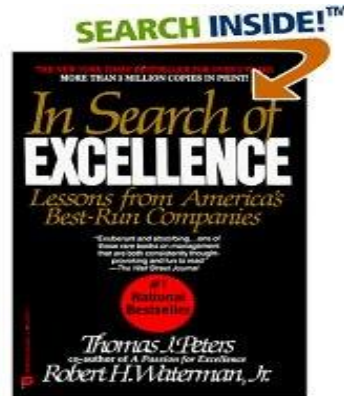
Team
Riga

Quality was widely used in business literature - we are Pioneers in international Quality Investing and built the bridge to the financial and investment world

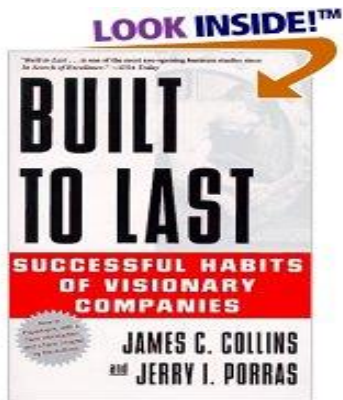
Business Literature



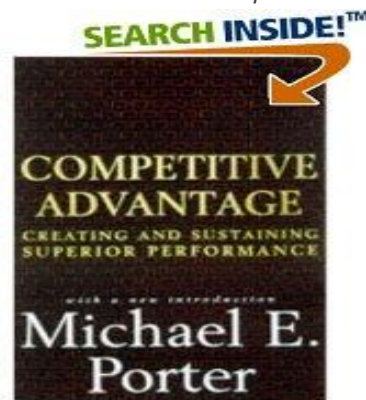
by James C. Collins



by Thomas J. Peters,
Robert H. Waterman, Jr

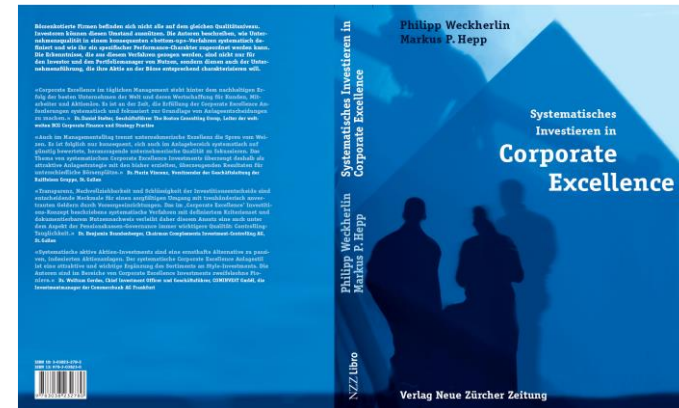


by James C. Collins / Jerry I. Porras

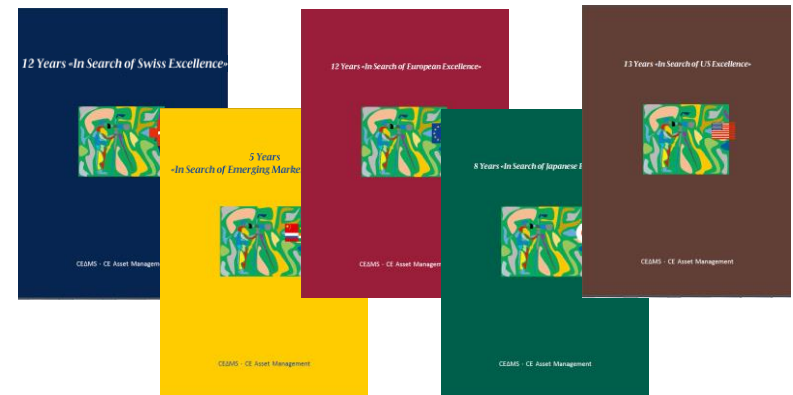


by Michael E. Porter

Corporate Excellence Book (2006)



getAbstract „Highly recommended reading for investors and asset managers...“
compressed knowledge



Herzlichen Dank & Wir freuen uns auf den Austausch mit Ihnen

- Unser Handeln gründet auf einem festen betriebswirtschaftlichen Fundament: über 15 Jahre Wissen und Erfahrung in der Anwendung systematischer Methoden zur Bestimmung von Qualität:
 - ✓ 11 Analysten für «Quality at Attractive Valuation»
 - ✓ Erfolgreicher Live Track Record seit 2004
- In Quality zu investieren bedeutet, betriebswirtschaftlich nachhaltig zu investieren:
 - ✓ Dies ist eine Grundvoraussetzung für alle weiteren Nachhaltigkeitskriterien
- Konsequenter Fokus auf Quality:
 - ✓ Z.B. hohe Active Shares i.d.R. von über 85%
- Zugang zu Hérens Quality Research:
 - ✓ Hérens Quality AM betreibt ein Research Center in Riga / Lettland. Analysen können nach Kundenbedürfnis abgestimmt und erstellt werden



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Transparent and detailed research documentation on each company on a monthly basis

HÉRENS QUALITY ASSET MANAGEMENT

Sonova Holding Ag (SOON.S)

Investment Case

Sector: Health Care
Group: Health Care Equipment & Services
Capitalization (bn): €11.33
Style: Quality
Employees: 14242
Major Shareholders: Founders 19.5%, Chase Nominees 9.8%

Business Model Description
 Sonova develops and markets hearing care solutions in two segments, hearing aids (HA) and cochlear implants (CI). The group operates through its core business brands Phonak, Unitron, Conned Hearing (H) and Advanced Bionics (CI). Sonova operates worldwide and distributes its products in over 90 countries through its own distribution network (c.2,000 retail outlets) and through independent distributors.

Competitive Advantage
 Industry leadership backed by technology & portfolio breadth. Company is deeply rooted in R&D (R&D spend per annum is in the range of 7-8% of Sales). In Hearing Aids Segment (90% of revenues) >2/3 of sales are from products that are less than 2 years from launch. From manufacturing side, Sonova is #1 on the market with 24% of the market share (William Demant is #2 with 23%, Siemens #3 with 17%). Over the past eight years, Sonova has gained the greatest market share, increasing it from 17% in 2005.

Growth Opportunities
 New product launches and higher penetration rates. Sonova is to enjoy further market share growth, driven by new platforms and products that show improved clinical results (partly driven by synergies from AB acquisition, like incorporating Phonak signal processing technology in the CI). Growth could also be supported by growing penetration rates in HI, which now are relatively low, especially in the largest target group (people with mild hearing loss, penetration rate 10%), as people receive more reimbursement, and as devices become more aesthetical and some are even invisible (Lytic product by Sonova, which is 1st and only 100% invisible device, wearable for several months).

Peer Comparison
 Clear market leader with outperforming sales growth. Sonova is not that diversified product wise (like William Demant that provides Diagnostic equipment as well), but has broader offering category wise. It also has the largest own branded retail network in the industry (2,000 points of sale). Owing to this, company was able to grow its market share the most in the recent years (from 2005).

Market Environment
 Cyclicalities and price sensitivity defines the market. The "big six" hearing aid manufacturers accounted for 98% of the world market in 2012. HI market is around CHF 4.0 bn worth and is growing at a CAGR of 2.4%. CI market is CHF 1.0n worth and has a CAGR of c10%. Of the whole population, c15% have hearing problems. Overall market wise, there are improving market conditions and Germany (largest market in Europe) has seen a rapid acceleration in volume growth from the change in reimbursement.

Latest Results and Outlook:
 H1 2016/17: Sales +6.7% (+5.5% lo) at CHF 1.070 bn; EBITA -5.2% (ex currency losses +2.7% lo), margin of 19.2% (2015/16: 19.5%); EPS +6% at CHF 2.43. FY 2016/17 outlook: sales growth to pick up in the H2, supported by the positive market response to our recently introduced products. Sales +14-16% in local (incl. AudiNova), increase in the EBITA of 8%-12% in local currencies.

Risk Factors
 1) as 90% of all the HI are out of the pocket expense, it can be cut during the times of economic turmoil; 2) pricing pressure and further regulatory barriers that increase the requirement and time for new product approvals; 3) FX headwinds, as company generates 90% of sales in currencies other than CHF.

Valuation
 Sonova represents high quality business story with promising momentum at the attractive valuation. It is trading at a significant premium to the market of 40%(18% P/E premium to 3y average premium).

Summary
 We invest in Sonova as 1) the company has leading positions in Hearing Aids and Cochlear implant markets; 2) there are good top and bottom line growth opportunities, driven by new products, further market penetration and synergies between segments; 3) it has the largest own branded retail network in the industry (2,000 points of sale).

Geographical Exposure (investments)

Customer Exposure
 No customer >10% of sales

Production Facilities
 CH 1; USA 1; CN 1; VN 1

Currency Exposure
 Sales: 1/3 USD, 1/4 EUR, 1/4 (GBP, CAD, BRL, JPY, AUD). Costs: major part in CHF

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HÉRENS QUALITY ASSET MANAGEMENT

Key Ratios

	2018	2017	Δ
ROE	17.5	17.5	0.1
Net Debt to Equity	9.4	19.7	-10.3
Current Ratio	1.0	1.9	-0.8
Dividend Payout	42.4	43.0	-0.6
Capital Intensity	-	-	-
Altman Z-Score	8.3	8.3	0.0

Financial Figures
 (in million CHF except for growth (%) and per share data)

	2018	2017	2016	CAGR (%)
Sales	2545	2356	2072	13.0
Operating Profit	497	474	395	12.2
Net Income	400	349	337	9.0
Cash From Operations	523	522	428	10.5
Equity	2452	2169	1852	14.1
Dividends	2.6	2.3	2.1	11.3

Valuation

Segment Total	Consolidated Total
5 D	5 D
239565 2E+05	239565 2E+05

Performance vs Sector

Weaknesses
 Although acquisition of NL based Audisonova would enable Sonova to remove competing products of WDH from the channel, acquisition will have negative impact on group's margins in the mid term (Sonova's standard EBITA margin of 21% is higher than Audisonova's 16%). For the second year running (as of FY 2015/16) company fell short of its guidance, which attracts greater risk of failure to medium term targets up the new defined by the company.

Threats
 - Pricing pressure and further regulatory barriers that increase the requirement and time for new product approvals;
 - FX headwinds, as company generates 90% of sales in currencies other than CHF;
 - Intensifying competition from white label brands as big US retailer Costco slashed prices on its own-brand product Kirkland (manufactured by GN) against which Sonova struggled to compete (CHF 10 mio short-term success) in HA in FY 2016/16;

Valuation

Market Environment: 3.69, CSR plausibility: 4.61

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HÉRENS QUALITY ASSET MANAGEMENT

Detailed Analysis

Financials	Governance
Reporting according IFRS/GAAP/IAS (IFRS)	Logic and stability of corporate structure
Quarterly reporting	Stability of Management Team
Corporate outlook	CEO background/relevance
Plausible earnings management	Plausible B&D rhythm
Plausible capital management	Plausible B&D skills
Plausible earnings management	Plausible B&D skills & experience

Valuation

Performance vs Sector

Earnings Estimate Momentum vs Sector

Forward P/E vs Sector

Valuation

Market Environment: 3.69, CSR plausibility: 4.61

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