



Equity Turnarounds & Special Situations

Love the business we invest in, but don't fall in love with the business

www.aozorastep.com

david@aozorastep.com

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*Love the business we invest in, but
don't fall in love with the business*

AozoraStep is launching its equity turnaround and special situations investment strategy to investors, which focuses on deep-value opportunities in a concentrated portfolio where external factors lead to a turnaround in valuations within 6 months.

With a 23.1% CAGR over the last 8 years*, the goal is now to raise up to £100m and offer advisory and separately managed accounts via IB at 0%/20% and 2%/20% fees respectively.



THE OPPORTUNITY

GS in December 2024: “UK equity markets trade at a 50% discount to the US and a 40% discount on a sector-adjusted basis. Even compared to Japan, UK has roughly twice the ROE of Japan but a similar Price-to-Book value”*

Exhibit 1: The UK trades at an extreme discount to the US

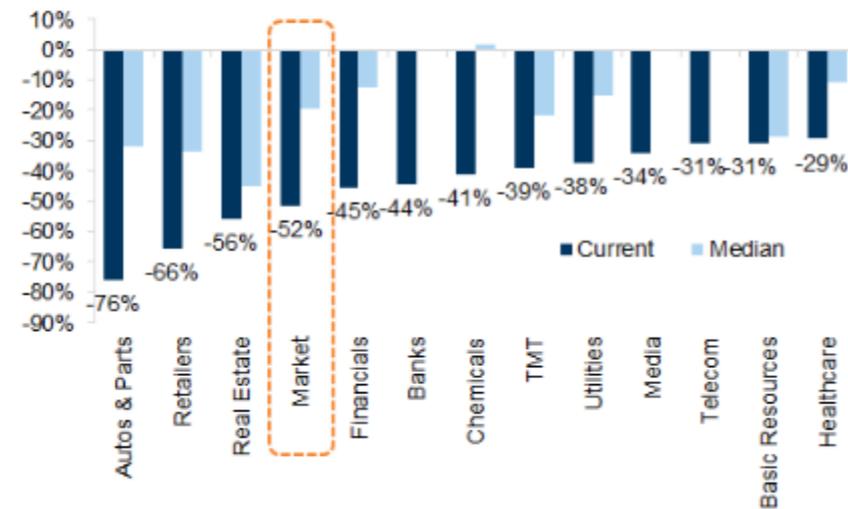
UK relative to US 12m forward P/E



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 2: Every sector in the UK is on a discount, almost all in double-digits

MSCI UK vs. US 12m forward P/E discount and Median P/E discount, last 20 years



Source: Datastream, Goldman Sachs Global Investment Research



THE OPPORTUNITY

2025's takeovers have >+50% premium



1. Spectris – 95% premium*
2. Alphawave IP Group – 96% premium**
3. Just Group – 75% premium***
4. TT Electronics – 64% premium****
5. Alpha Group International – 55% premium*****



THE OPPORTUNITY



Equity portion of UK pension and insurance funds declined from 45.7% in 1997 to just 4.2% in 2022.*



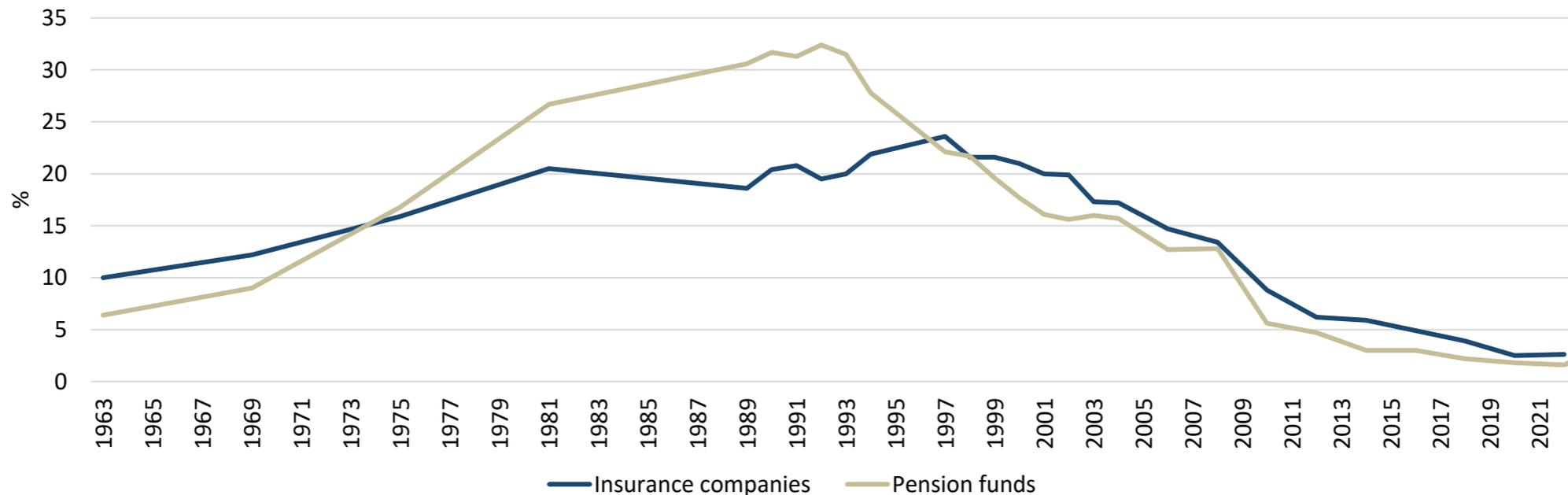
Reasons for this trend are largely regulatory changes, such as FRS17, and more profitable return expectations on overseas shares.**



UK government is seeking to close this gap by forcing its £2trn pension funds to invest more into UK equities.***

Mansion House Accord: £50bn unlocked ****

Insurance and pension companies held a historically low proportion of UK quoted shares in 2022



THE CHALLENGE

How to manage a long-only equity strategy in an environment of high government debt and de-globalization?

How to beat the Budget
8-PAGE pullout to protect your family finances

Daily Mail
THURSDAY, OCTOBER 31, 2024
daily@mail.co.uk
£1.10 85p to subscribers

SCAN TO SUBSCRIBE AND SAVE

Record hike will take tax burden to highest level EVER

Businesses are hammered... and pensions hit by inheritance raid

Borrowing will soar under public spending splurge

Wages hit and growth to stall... while mortgages and inflation RISE

25 pages of reports & unrivalled analysis

REEVES' £40bn TAX BOMBHELL FOR BRITAIN'S STRIVERS

BRITAIN'S growth prospects took a dive last night after Rachel Reeves' £40 billion tax bomb. In the most Left-wing Budget for decades, the Chancellor pushed taxes to their highest level in history and relaxed government borrowing rules to finance a massive spending spree. But in a blow to Ms Reeves, the Office for Budget Responsibility last night cut its forecast for economic growth in the later years of this decade, making a mockery of her ambition to be 'the most pro-growth Chancellor in history'. And in a warning to millions of 'working people', the economic watchdog predicted that the Chancellor's Budget measures would fuel inflation, push up mortgage rates and squeeze wages. In a bleak finding, the OBR said average real household disposable income will fall by 1.5% over the next five years. **Turn to Page 2**



Donald J. Trump
@realDonaldTrump

Based on the lack of respect that China has shown to the World's Markets, I am hereby raising the Tariff charged to China by the United States of America to 125%, effective immediately. At some point, hopefully in the near future, China will realize that the days of ripping off the U.S.A., and other Countries, is no longer sustainable or acceptable. Conversely, and based on the fact that more than 75 Countries have called Representatives of the United States, including the Departments of Commerce, Treasury, and the USTR, to negotiate a solution to the subjects being discussed relative to Trade, Trade Barriers, Tariffs, Currency Manipulation, and Non Monetary Tariffs, and that these Countries have not, at my strong suggestion, retaliated in any way, shape, or form against the United States, I have authorized a 90 day PAUSE, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately. Thank you for your attention to this matter!

413 ReTruths 1.31k Likes

Apr 09, 2025, 1:18 PM

THE SOLUTION

THE UK EQUITY TURNAROUND AND SPECIAL SITUATION STRATEGY



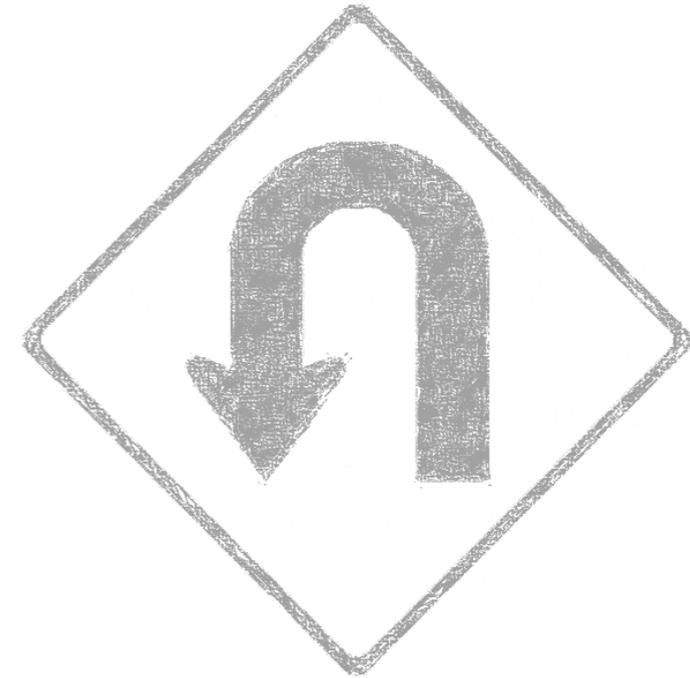
- 1. Seek deep-value UK equities**
- 2. Identify the pivot point at which these deep valuations turn around**
- 3. Concentrate the portfolio in 2-10 of these turnarounds and special situations where our fair value is around 40% higher and returns can be generated within 6 months**
- 4. Then find the next opportunity**

“Love the business we invest in, but don’t fall in love with the business”

THE TURNAROUND MARKET

OUT OF 1,700 UK EQUITIES, 50 COULD BE TURNAROUND OPPORTUNITIES

- >1,700 companies are listed in the UK*
- ~600 of them are in the mid cap space of £150m-3bn market cap, ~100 are large cap >£3bn
- ~50 of them are potential turnaround candidates
- Generally, only 2-10 deep value companies fulfill the +40%/-20% return/risk profile within 6 months with external factors aligned



Strategy is now expanded to other markets, such as the U.S. & Japan

TURNAROUND EXAMPLE

NEXXEN: A VALUATION THAT HIT ROCK BOTTOM

Nexxen International vs. PubMatic 2023 financials

Indicator	Nexxen International (NEXN LN)	PubMatic (PUBM US)
Market cap	\$360m	\$1.15bn
2023 operating income incl. leases & share price dilution deduction (excl. working capital)	\$37m	\$48m
2023 Net cash	\$134m	\$175m
2023 Revenue	\$332m	\$267m
2023 Net current assets	\$222m	\$182m
2024 Adj. EBITDA Outlook	\$100m	\$88m



Nexxen traded at ~1/3 the value of PubMatic

TURNAROUND EXAMPLE

TIMING THE PIVOT POINTS



✓ Attractive valuation:

Nexxen's EV/adj EBITDA was then at 2x

✓ Shareholder returns:

\$20m share buyback launched (NEXN) + \$50m share buyback announced

✓ External factors aligned:

Advertising has hit a low in July 2024 and since recovered. Major brands announced the need to spend more on ads

✓ Relative value:

Valuation gap between Nexxen and competitors

➤ Bought Nexxen in October/November 2023 and sold in January 2024 after target valuation was achieved with a 35% return ([here](#) & [here](#))

TURNAROUND EXAMPLE

RE-ENTER WHEN OPPORTUNITY REMAINS ACTIVE



- ✓ Re-entered Nexxen in March 2024 after positive results from competitors and a valuation that remained attractive

Details [here](#) & [here](#)

- Exited with 15% profit as Israel-Lebanon conflict worsened

Detail [here](#)

— = Nexxen International
— = PubMatic

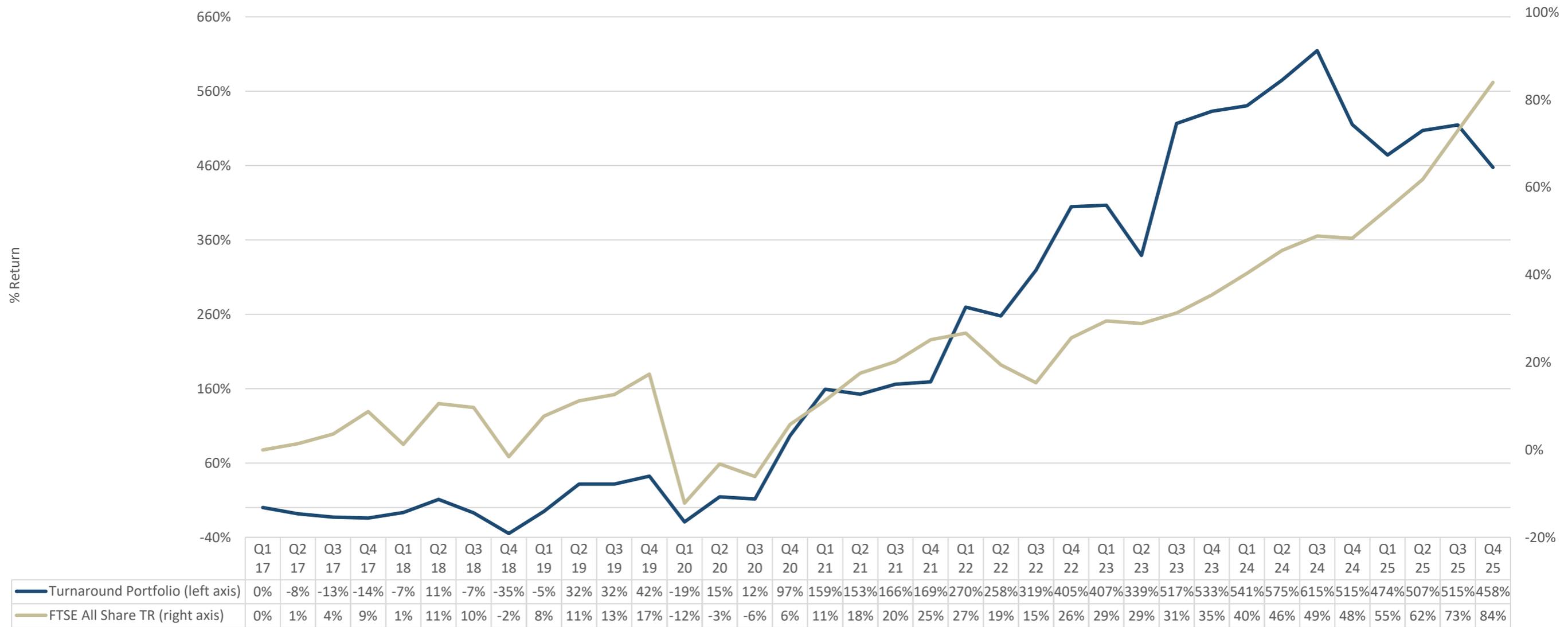
OTHER HISTORIC TURNAROUND EXAMPLES*

ESG, GEOPOLITICS & CYCLICAL ADJUSTMENTS



THE PERFORMANCE*

STRONG & UNCORRELATED RETURNS IN A VERY CONCENTRATED PORTFOLIO



*The Turnaround Portfolio is not constrained by a concentration limit per holding and holds interests in only 2-5 stocks at a time. Past performance is not indicative of future returns.

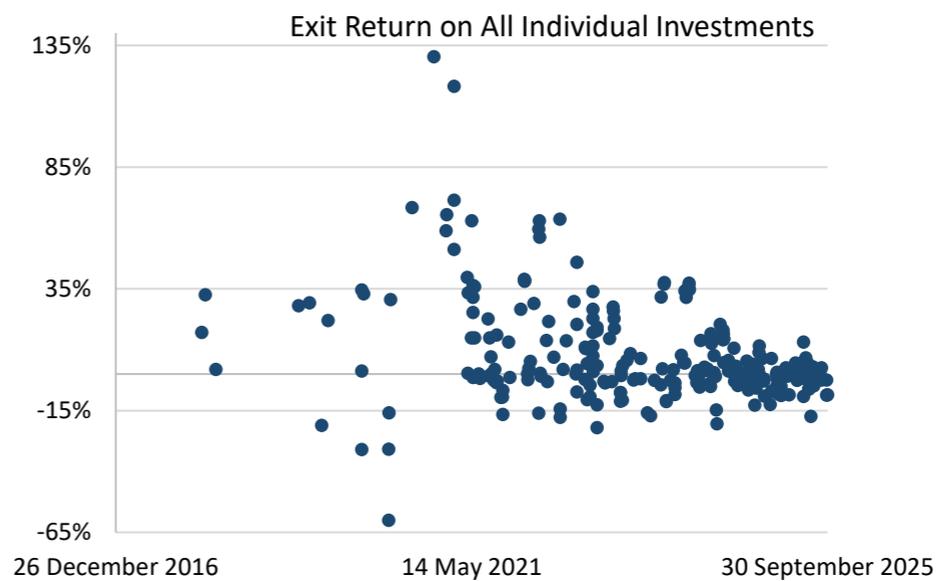
THE PERFORMANCE*

NEGATIVE RETURNS WERE HISTORICALLY SHORT-LIVED & DUE TO RATE SPIKE

Quarterly Performance	Turnaround Portfolio	FTSE All Share TR
Q1 17	0%	0%
Q2 17	-8%	1%
Q3 17	-5%	2%
Q4 17	-1%	5%
Q1 18	9%	-7%
Q2 18	19%	9%
Q3 18	-16%	-1%
Q4 18	-30%	-10%
Q1 19	45%	9%
Q2 19	39%	3%
Q3 19	0%	1%
Q4 19	8%	4%
Q1 20	-43%	-25%
Q2 20	42%	10%
Q3 20	-3%	-3%
Q4 20	76%	13%
Q1 21	32%	5%
Q2 21	-3%	6%
Q3 21	5%	2%
Q4 21	1%	4%
Q1 22	37%	1%
Q2 22	-3%	-6%
Q3 22	17%	-3%
Q4 22	20%	9%
Q1 23	0%	3%
Q2 23	-13%	0%
Q3 23	40%	2%
Q4 23	3%	3%
Q1 24	1%	4%
Q2 24	5%	4%
Q3 24	6%	2%
Q4 24	-14%	0%
Q1 25	-7%	5%
Q2 25	6%	4%
Q3 25	1%	7%
Q4 25	-9%	6%

Annual Performance	Turnaround Portfolio	FTSE All Share TR
2017	-9%	9%
2018	-31%	-9%
2019	113%	19%
2020	52%	-10%
2021	37%	18%
2022	99%	0%
2023	26%	8%
2024	-1%	10%
2025	-10%	24%

Overall Performance	Turnaround Portfolio	FTSE All Share TR
CAGR	21%	7%
2017-25 Return	458%	84%



THE PERFORMANCE*

EXITS OF POSITIONS SHOW HIGH UPSIDE AND LOW POTENTIAL DOWNSIDE

>15% Returns over last 3 years						
Company	Entry Date	Exit Date	Return	Entry note	Exit note	
Centrica plc	03-Sep-21	07-Jan-22	36%	https://www.aozorastep.com/centrica	https://www.aozorastep.com/centrica/centrica-exit	
Hunting Plc	02-Aug-21	15-Mar-22	60%	https://www.aozorastep.com/hunting	https://www.aozorastep.com/hunting/hunting-exit	
IG Design Group	30-Mar-22	25-Apr-22	17%	https://www.aozorastep.com/igdesign	https://www.aozorastep.com/igdesign/igdesign-group-exit	
Go-Ahead Group	29-Apr-22	14-Jun-22	64%	https://www.aozorastep.com/goahead	https://www.aozorastep.com/goahead/goahead-group-exit	
Serica Energy	15-Jun-22	30-Aug-22	43%	https://www.aozorastep.com/sericaenergy	https://www.aozorastep.com/sericaenergy/sericaenergy-exit	
Hunting plc	18-Oct-22	09-Nov-22	23%	https://www.aozorastep.com/hunting-reentry	https://www.aozorastep.com/hunting-reentry/hunting-reentry-exit2	
Reach Plc	09-Sep-22	10-Nov-22	33%	https://www.aozorastep.com/reach	https://www.aozorastep.com/reach/reach-exit	
IG Design Group	03-Nov-22	29-Nov-22	18%	https://www.aozorastep.com/igdesign-reentry	https://www.aozorastep.com/igdesign-reentry/igdesign-reentry-exit2	
Greencore	16-Nov-22	14-Feb-23	23%	https://www.aozorastep.com/greencore	https://www.aozorastep.com/greencore/greencore-re-exit	
On The Beach	01-Aug-23	13-Sep-23	32%	https://www.aozorastep.com/onthebeach	https://www.aozorastep.com/onthebeach/onthebeach-exit	
Hunting plc	24-Mar-23	27-Sep-23	37%	https://www.aozorastep.com/reentry-hunting	https://www.aozorastep.com/reentry-hunting/reentry-hunting-exit	
Tremor International	13-Nov-23	17-Jan-24	35%	https://www.aozorastep.com/tremorinternational	https://www.aozorastep.com/tremorinternational/tremorinternational-exit	
Nexxen International	27-Feb-24	20-Jun-24	15%	https://www.aozorastep.com/nexxen	https://www.aozorastep.com/nexxen/nexxen-exit	
<-15% Returns over last 3 years						
Company	Entry Date	Exit Date	Return	Entry note	Exit note	
Vertu Motors	21-Mar-22	16-Jun-22	-16%	https://www.aozorastep.com/vertumotors	https://www.aozorastep.com/vertumotors/vertumotors-exit	
National Express	30-May-23	27-Jul-23	-15%	https://www.aozorastep.com/nationalexpress	https://www.aozorastep.com/nationalexpress/nationalexpress-exit	

THE STRUCTURE

A NEW LAUNCH

Key Facts	Structure
Investment Manager	TBD
Portfolio Manager	David Herrmann
Minimum Investment	\$500k
Fees	2% Management Fee (monthly) / 20% Performance Fee (quarterly) / 8% Soft Hurdle / Perpetual High Watermark. Management Fees earned above fixed costs are returned to investors during down periods
Redemptions	Quarterly / 30 days' notice
Advisory	20% Performance Fee on minimum \$500k
AMC (UBS)	Minimum total interest of £10m
Irish AIF	With AUM >\$20m
Listed company	When AUM >\$500m
Prime Broker	Interactive Brokers (separately managed accounts) or other (planned)
Administrator	Opus Fund Administration or NAV Consulting (planned)
FCA license (incl. RIA, ERA)	Onboarding process finalised with Vittoria and Partners
Legal Counsel	Simmons + Simmons
Accountants	HiCloud Accounting – plan to work with HaysMac with first clients to enable growth
Team expansion	COO/Investor Relations, Compliance Officer, Secretary, Analysts

THE FOUNDER & ETHOS

PORTFOLIO MANAGER

David Herrmann, Managing Partner



David Herrmann is the founder & managing partner of AozoraStep. He managed STIR portfolios at Bluecrest Capital and UBS and graduated in Economics and Finance from the University of Amsterdam. David has worked in over 8 countries on 4 continents over the years and seeks to build a conglomerate over time.

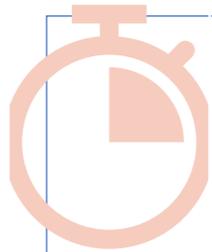
Ethos

“We humans often follow a certain thought or idea without really knowing whether this thought or idea is 100% correct, but like the fact that everyone agrees. I believe we do this, because otherwise we will never all agree on something, and hence will never achieve harmony. However, acting against this “harmony” and constantly seeking 100% truth and knowledge is key in achieving excellent and market beating returns”

INVESTOR COMMUNICATION

ABSOLUTE TRANSPARENCY

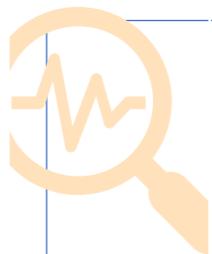
A newsletter subscription that provides full transparency to investors



Quarterly reports (view [here](#))



Turnaround notes (entry & exit)
(view [here](#))



Macro research notes
(view [here](#))



Annual summary of
expenditures and return of
potential profits generated from
management fees to investors

SUMMARY

WHY CHOOSE AOZORASTEP?

EXCEPTIONAL INSTITUTIONAL BACKGROUND

Strong institutional background of managing partner and advisors as well as top-quality service providers

INCENTIVES ARE ALIGNED FOR PROFIT-MAXIMISATION

With growth in AUM, the focus will remain on performance as management fee will never become a profit centre

ABSOLUTE TRANSPARENCY

Full transparency about fixed costs to investors as well as open book communication over positions, views and research

A PROVEN STRATEGY THAT IS UNIQUE

Pure alpha, uncorrelated returns in environments when the general market was down (such as in 2022)*

LASTING PARTNERSHIP & FUTURE ENDEAVOURS

Flexibility to create a structure that suits its clients offering SMAs, advisory, AMC and fund structure as and when required.

Over the long-term, the plan is to create a conglomerate with full ownership in the insurance, energy and media sectors, whilst keeping a marketable securities portfolio with the turnarounds & special situations strategy

CONTACT

AozoraStep Capital LLP

21 Knightsbridge, London SW1X 7LY

David@aozorastep.com

www.aozorastep.com

