



AozoraStep Capital LLP

A UK focused Value Investment Partnership

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CURRENT MARKET CONDITIONS

1. Historic Comparison: 1918-20 Spanish Flu
2. US May Urban CPI Print
3. UK Travel & Leisure Market
4. Markets vs. real economy
5. Where to find value

1. HISTORIC COMPARISON: 1918-20 SPANISH FLU

HISTORIC COMPARISONS – STRIKING PARALLELS

1918-1920 Pandemic	Current environment
<ul style="list-style-type: none"> • 1914-1918 economy was booming • Federal Reserve founded, partly to rein in inflation • Wealth gap between rich and poor widened • Tax on rich introduced (income >\$1mio) 	<ul style="list-style-type: none"> • 2016-2020 economy was booming • MMT was in discussion • Wealth gap between rich and poor at historic highs • Taxes were reduced, not increased
<p>Spanish flu had 4 waves</p> <p>1st March 1918</p> <p>2nd late 1918</p> <p>3rd Beginning to mid 1919</p> <p>4th spring 1920</p>	<p>Covid so far had 3 waves</p> <p>1st March 2020</p> <p>2nd late 2020</p> <p>3rd Beginning to mid 2021</p> <p>4th?</p>
In 1919 at some point every 4 th British worker was on strike (as prices climbed faster than wages – high inflation)	In 2020/21 many British workers were striking, e.g. Centrica/British Gas, BT (threat), NHS (threat)
November 1919 Federal Reserve raised interest rates by 50bps to deter speculators	Federal Reserve began tapering corporate bonds in June 2021, likely more to come (equivalent November 2021)
<p>3rd November 1919 high of stock market, began declining slowly, then quickly in 1920</p> <p>April/May 1920 cotton prices declined fast</p>	<p>We are at all-time equity highs... commodities partly at all-time-highs</p> <p>Equivalent of November 2021...</p>
<p>Between 1920-21 US GDP declined 23.9%, PPI -40.8%, industrial production -31.6%, stock prices -46.6%, corporate profits -92%</p> <p>New taxes were introduced after the sell off (12.5% capital gains tax)</p>	<p>Taxes are hitting wires as of 31st December 2021</p> <p>Equivalent of 2022-23</p>

HISTORIC COMPARISONS – POWELL PUT

- Powell experienced massive criticism when the Fed tapered in 2018 and market dived 30%
- Powell is up for re-election by February 2022
- While Fed starts to taper, if Powell wants to keep his job, markets should be supported until at least February 2022... but Yellen supports higher interest rates...



HISTORIC COMPARISONS – TAXATIONS COULD BITE

- US corporate tax rate might increase from 21% to 28% effective from December 31st 2021. (UK from 19% to 25% in 2023)
- US individual income tax rate increases from 37% to 39.6% for top marginal tax payer effective from December 31st 2021. Thresholds will be indexed for inflation after 2022
- US capital gains taxes will turn into individual income tax rates + 3.8% NIIT (43.4% vs. 20.315% today) for >\$1mio earnings effective from December 31st 2021
- G7 agreement on minimum tax of at least 15% for global corporations with profit margins of at least 10% in the country they generate their profits in (would see 20% of any profit above 10% margin reallocated)



2. US MAY URBAN CPI PRINT

INFLATION – SHIFTS ACROSS SECTORS

+0.8% April 2021 CPI Print

Biggest drivers:

- +10% used cars (2.7% weight)
- +10.2% airline fares (0.6% weight)
- +2.9% transportation services (5.1% weight)
- +2.4% utility (piped) gas service (0.7% weight)
- +1.2% electricity (2.4% weight)

Biggest laggards:

- 3.2% fuel oil (0.1% weight)
- 1.4% gasoline (3.5% weight)

+0.6% May 2021 CPI Print

Biggest drivers:

- +7.3% used cars (3% weight)
- +7.0% airline fares (0.7% weight)
- +1.5% transportation services (5.2% weight)
- +1.6% new vehicles (3.7% weight)
- +1.2% apparel (2.7% weight)
- +0.4% food at home vs. +0.6% food away from home (weight 7.7% vs. 6.2%)

Biggest laggards:

- 0% energy as fuel increase offset by decrease in gasoline (6.9% weight)

UK INFLATION – SHIFTS ACROSS SECTORS

UK April 2021 CPIH rises by 0.7% month-on-month



3. UK TRAVEL & LEISURE MARKET

HEATHROW AIRPORT – DWINDLING PASSENGERS

Month	Passengers	Air Transport Movements	Cargo (Metric Tonnes)
January 2020	6,099,370	75,872	115,894
February 2020	5,441,862	70,464	115,859
March 2020	3,106,845	51,596	100,857
April 2020	206,324	9,736	50,949
May 2020	227,230	12,831	77,781
June 2020	350,283	14,405	88,854
July 2020	866,655	23,841	88,397
August 2020	1,418,683	30,478	82,960
September 2020	1,256,479	28,924	90,247
October 2020	1,245,624	36,049	108,482
November 2020	746,954	22,704	113,799
December 2020	1,143,417	24,725	107,576
January 2021	677,356	19,243	92,040
February 2021	461,188	15,546	101,430
March 2021	541,669	18,868	122,474
April 2021	536,039	19,769	116,096
May 2021	675,214	11,215	117,054

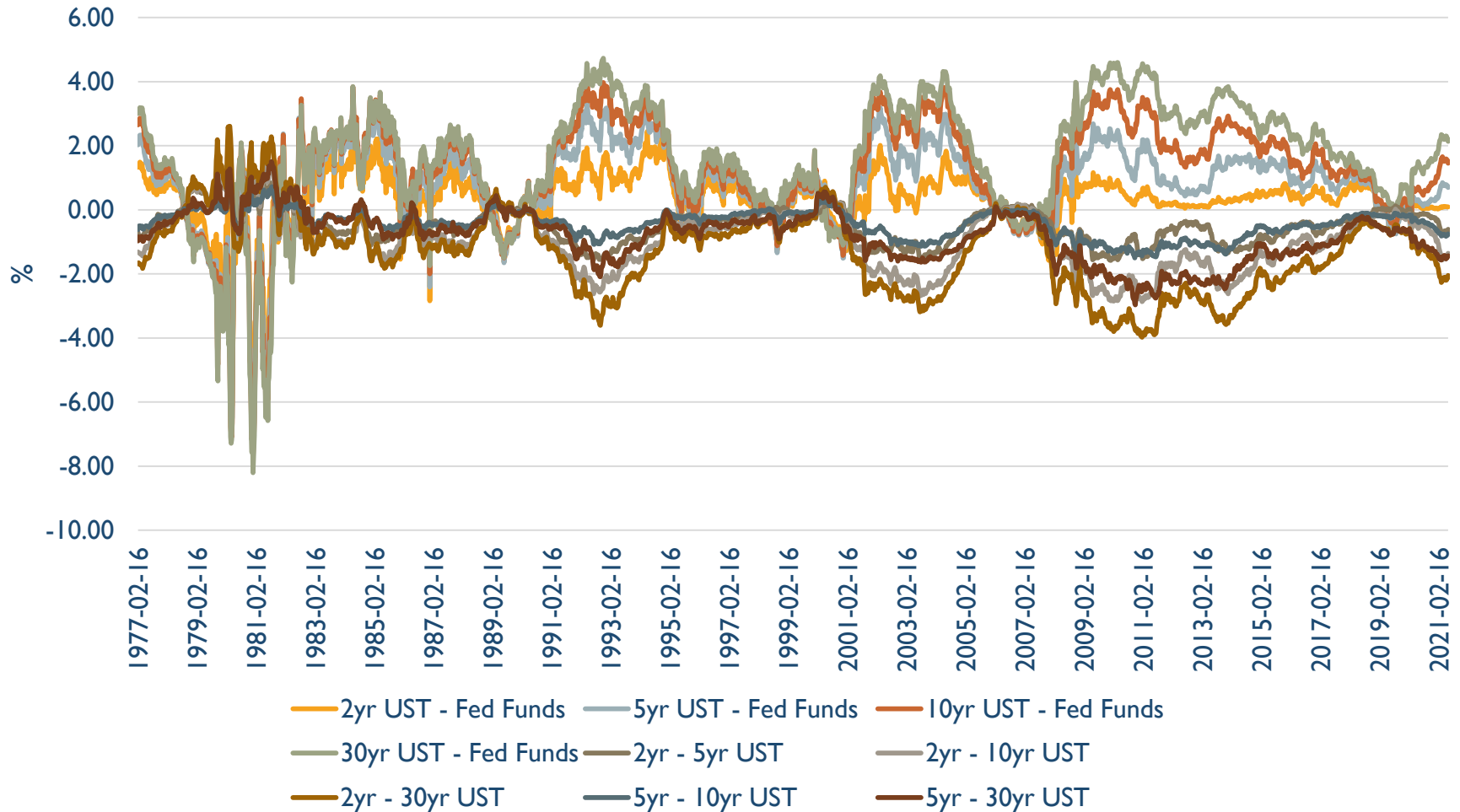
HEATHROW AIRPORT – DWINDLING PASSENGERS

Month	UK	EU	Non-EU Europe	Africa	North America	Latin America	Middle East	Asia / Pacific	Total
January 20	359,696	1,878,161	437,485	316,846	1,337,738	117,017	676,728	975,699	6,099,370
February 20	347,213	1,828,594	425,015	278,573	1,168,007	103,391	588,926	702,143	5,441,862
March 20	206,666	875,047	217,521	189,912	711,105	85,453	351,785	469,356	3,106,845
April 20	9,646	66,886	7,395	6,900	27,127	4,055	36,547	47,768	206,324
May 20	11,979	91,583	10,990	8,141	31,198	3,793	30,298	39,248	227,230
June 20	19,832	151,340	25,597	8,911	46,320	6,037	43,411	48,835	350,283
July 20	55,358	482,159	97,353	20,199	70,344	7,137	75,192	58,913	866,655
August 20	89,969	835,658	181,426	29,720	88,295	9,692	105,480	78,443	1,418,683
Sept 20	98,076	653,155	128,846	48,488	84,339	11,654	112,831	119,090	1,256,479
October 20	121,553	600,678	103,170	69,440	90,869	20,494	112,512	126,908	1,245,624
Nov 20	57,476	239,911	67,635	63,301	81,713	19,881	103,496	113,541	746,954
Dec 20	82,577	348,372	80,839	107,748	124,669	42,640	225,215	131,357	1,143,417
January 21	57,487	187,045	41,452	75,593	85,988	10,843	132,524	86,424	677,356
February 21	50,539	118,057	37,376	54,579	43,430	4,608	57,238	95,361	461,188
March 21	57,745	140,232	47,670	60,462	51,821	5,227	65,543	112,969	541,669
April 21	61,898	173,087	53,888	53,952	63,093	6,196	36,683	87,242	536,039
May 21	100,121	257,951	54,016	54,064	87,631	9,297	49,194	62,940	675,214

4. MARKETS VS. REAL ECONOMY

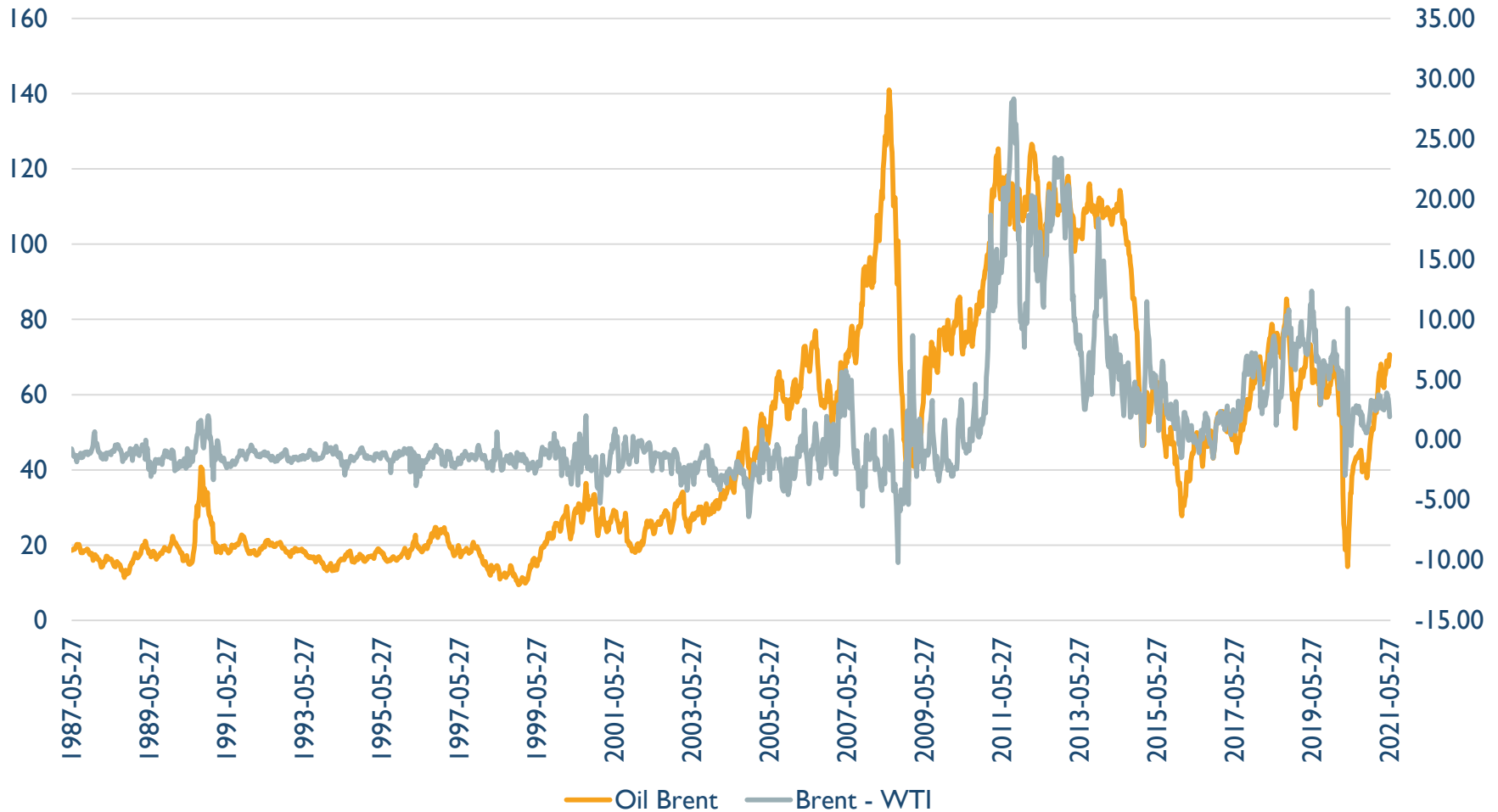
MARKETS VS. REAL ECONOMY – END OF STEEPENING?

US Yield curve dynamics from 1977



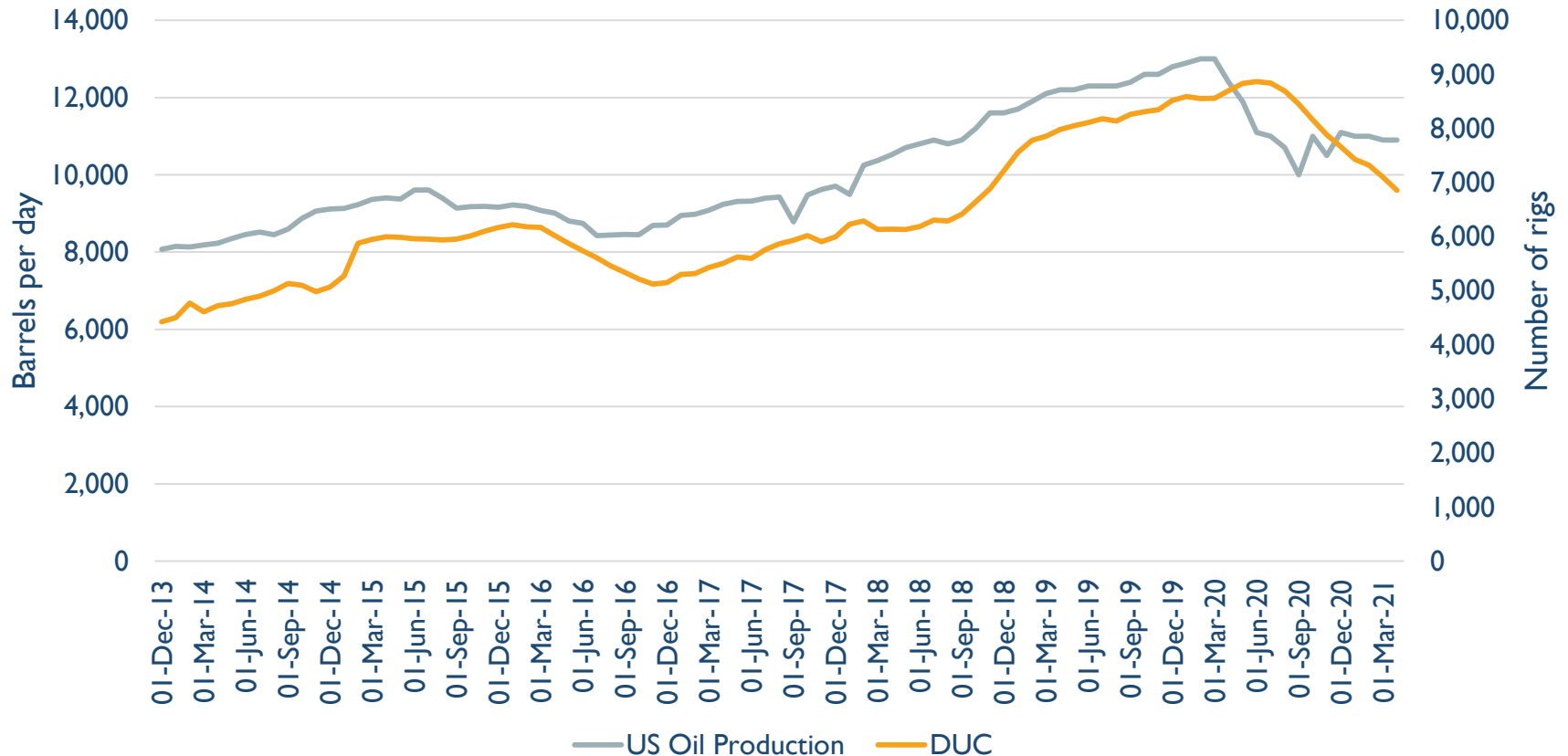
MARKETS VS. REAL ECONOMY – OIL HEADED HIGHER?

Brent – WTI spread could narrow



MARKETS VS. REAL ECONOMY – OIL HEADED HIGHER?

Production is stable while DUC continues decline



5. WHERE TO FIND VALUE

(INTER)NATIONAL REOPENING - APPAREL & MACHINES

- Mulberry
 - British handbag brand
 - £200mio market cap (no debt other than leases)
 - Profitable for FY 21
 - Cut 25% of workforce, renegotiated leases
 - Tiny free-float
 - Ownership:
 - 56% Ong Beng Seng
 - 37% Frasers Group
- Photo-Me
 - Photo-booths, photo-kiosks, washing machines, children rides, juice machines
 - £270mio market cap
 - Profitable for FY 21, net cash £22mio
 - Reduced number of photo-booths
 - Ownership:
 - 29% Crasnianski Serge

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