



A UK focused Turnaround Value Investment Partnership

www.aozorastep.com

david@aozorastep.com

LEGAL DISCLAIMER

The contents of this publication have been prepared solely for the purpose of providing information about AozoraStep Capital LLP and the services and products it offers, which are targeted for professional investors only. The opinions and views expressed are those of AozoraStep, may change without notice and should not be construed as investment, tax, legal or other advice. AozoraStep does not guarantee the completeness and accuracy of the information provided and all content can become out of date. Products or services mentioned on this site are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly persons are required to inform themselves and observe any such restrictions. In respect to investments described on this website, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned on this website may fall as well as rise and may have tax consequences. The performance of AozoraStep is based on a personal track record and audited by Sedulo for the time period Q1 2019 – Q1 2021 only with further audits being done on an occasional basis. AozoraStep Capital LLP is currently not authorized by the FCA, but is in the process of authorization. AozoraStep Capital LLP is registered in England and Wales with registered number OC436835. Registered Office: 57 Lansdowne House, Berkeley Square, London W1J 6ER, United Kingdom. Reproduction or distribution of any materials obtained in this presentation or linking to this presentation without written permission is prohibited.

TODAY'S TOPICS

1. Inflation peak?
2. Consumer Confidence Rebound
3. Something needs to break...
4. How the micro fits in the macro

1. INFLATION PEAK?

WITHOUT ENERGY, US CPI CLIMBED 0.4% IN MARCH 2022

+0.8% February 2022 CPI Print

Biggest drivers:

- 0.2% used cars (4.17% weight)
- +0.3% new vehicles (4.1% weight)
- +3.5% car and truck rental (0.14% weight)

- 2.2% lodging away (0.9% weight)
Of which +2.5% hotels, motels (0.77% weight)
- +0.6% rent of shelter (32.42% weight)
- +1.0% transportation services (5.6% wgt)
- +0.7% apparel (2.5% weight)
- +3.5% energy (7.41% weight)

- +1.0% Food (13.39% weight)

- +0.1% Medical care services (6.97% wgt)

+1.2% March 2022 CPI Print

Biggest drivers:

- 3.8% used cars (4.17% weight)
- +0.2% new vehicles (4.1% weight)
- +11.7% car and truck rental (0.14% weight)

- +3.3% lodging away (0.9% weight)
Of which +3.7% hotels, motels (0.81% weight)
- +0.5% rent of shelter (32.32% weight)
- +2.0% transportation services (5.6% wgt)
- +0.6% apparel (2.56% weight)
- +11% energy (7.55% weight) → 0.83% of 1.2%

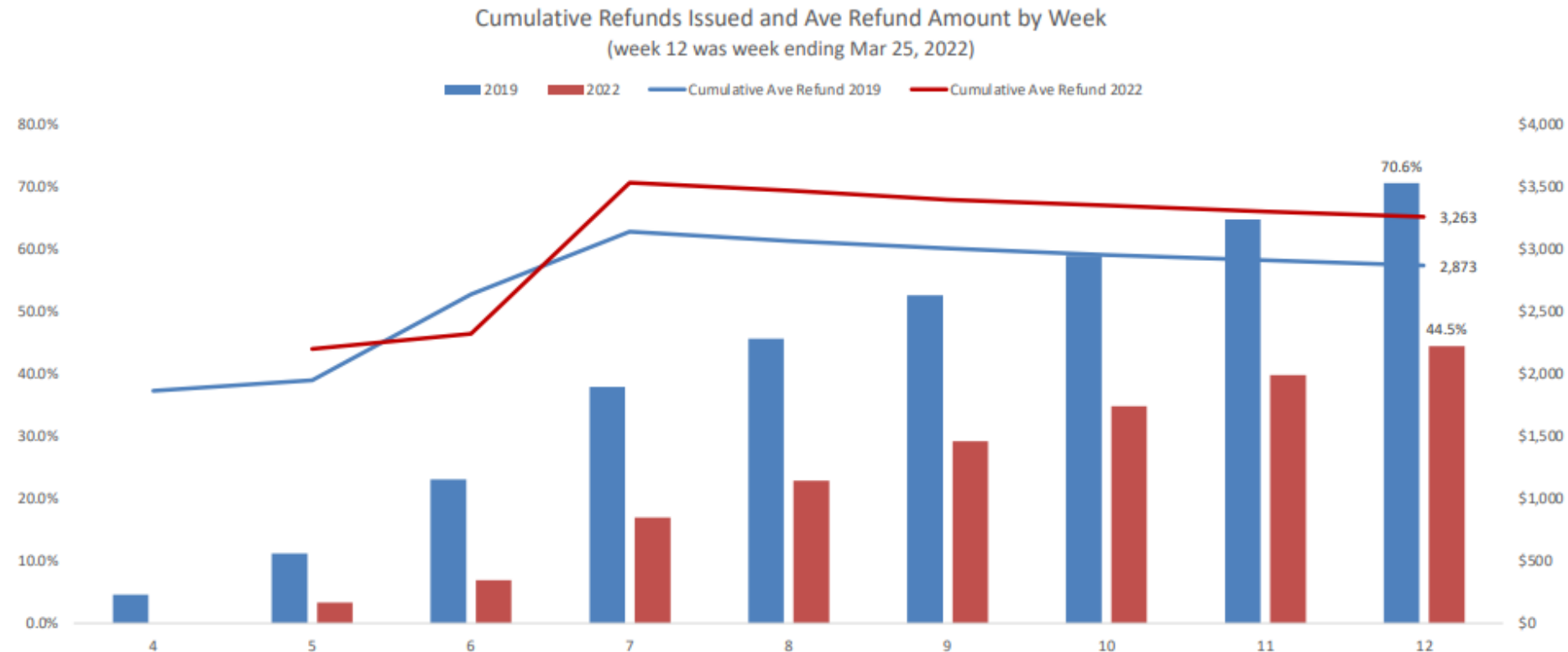
- +1.0% Food (13.41% weight)

- +0.6% Medical care services (6.93% wgt)

US USED CAR PRICES EXPECTED TO CLIMB AGAIN

Tax Refund Season Several Weeks Behind Normal

Refund issuance did not reach critical mass in March, but average refund up 12% year over year



COX AUTOMOTIVE

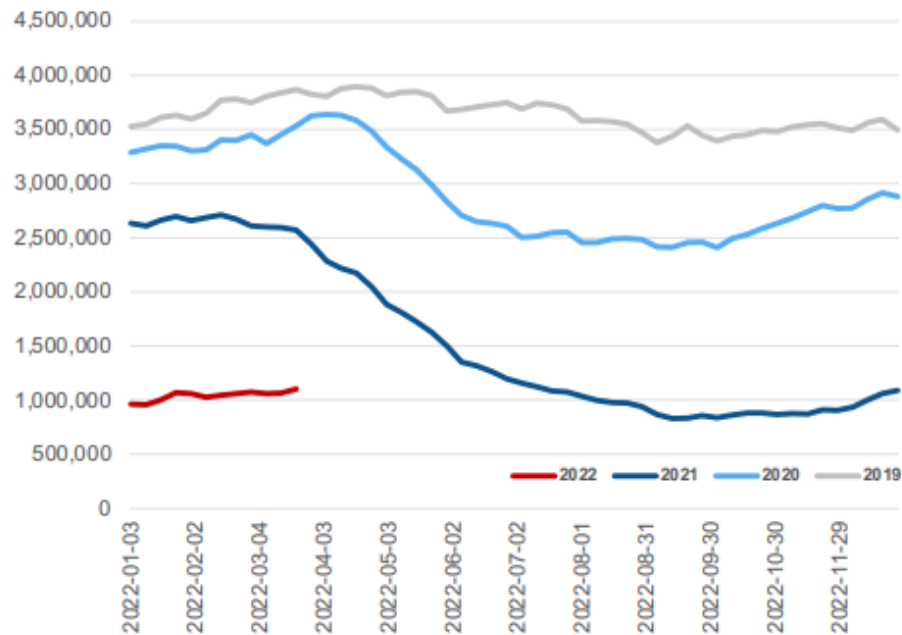
Source: Verisk/Equifax

US NEW CAR SUPPLY IS NOT RECOVERING

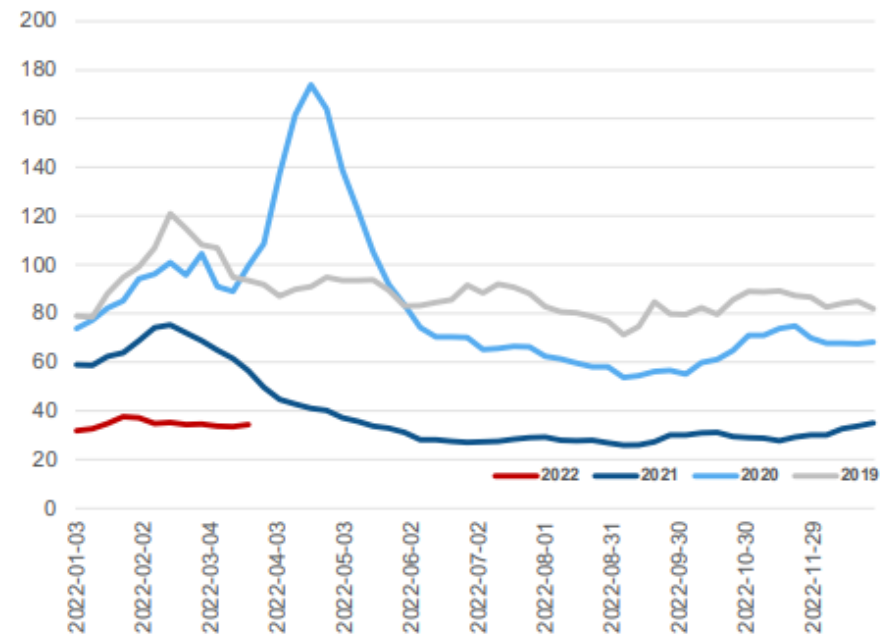
New Supply Tightening Again in March

Inventory down 71% vs. 2019 and down 57% from last year

Available Supply weekly



Days of Supply weekly



COX AUTOMOTIVE

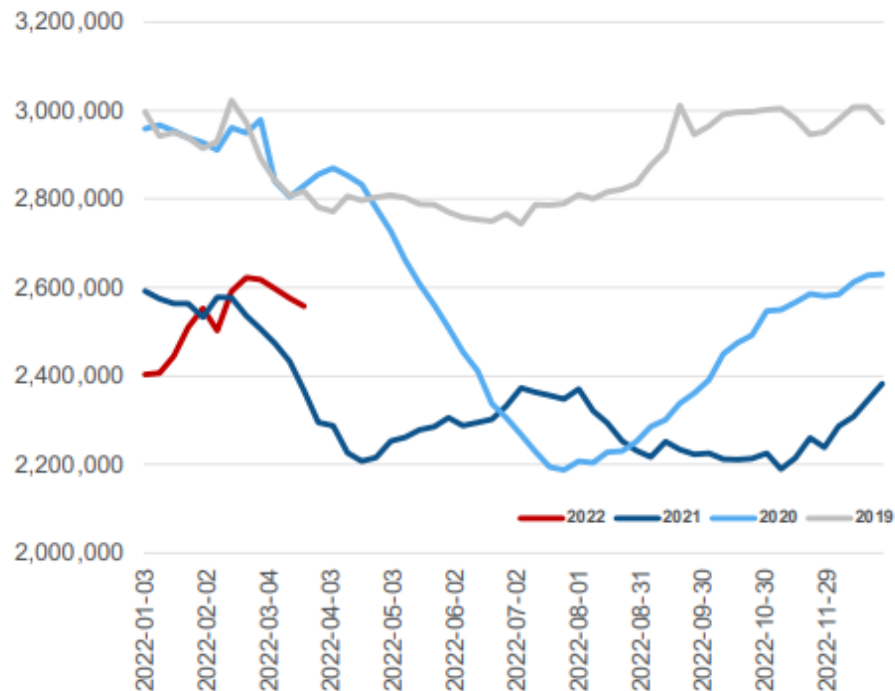
Source: Cox Automotive

US USED CAR SUPPLY COULD FALL OFF A CLIFF HERE

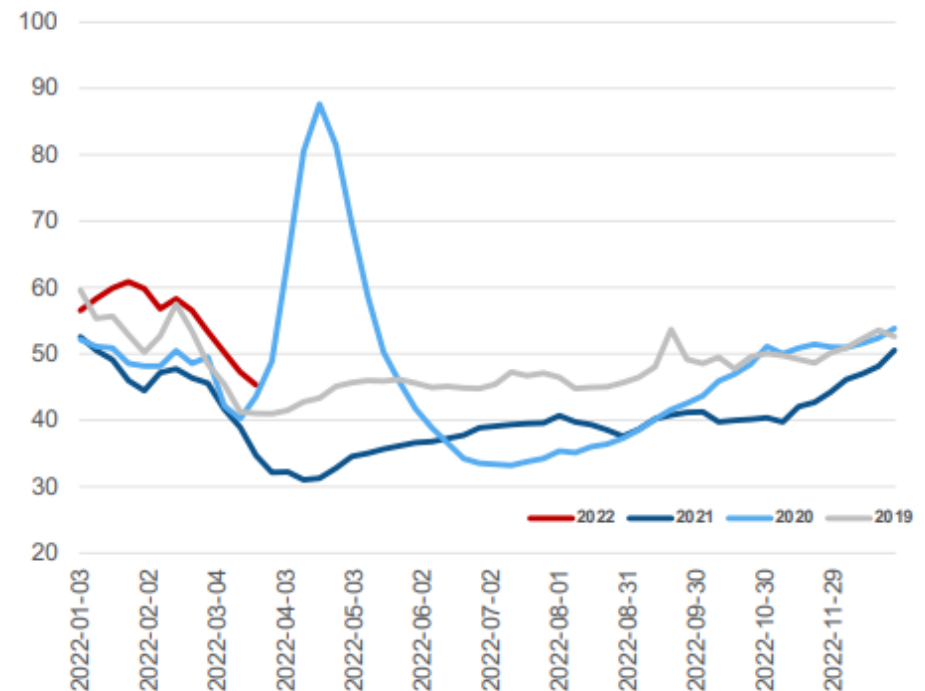
Used Supply Tightening Substantially in March

Days' supply fell 19 days over course of March

Available Supply weekly



Days of Supply weekly



COX AUTOMOTIVE

Source: Cox Automotive

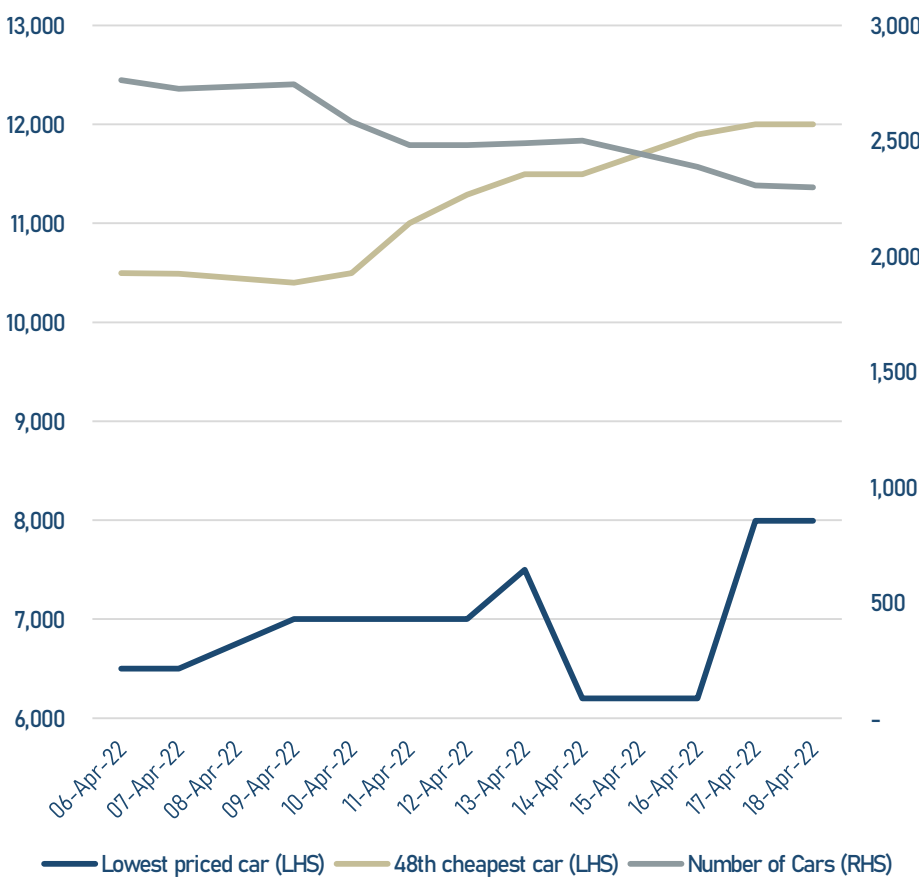


Source: Manheim Used Vehicle Value Index April 2022 Presentation

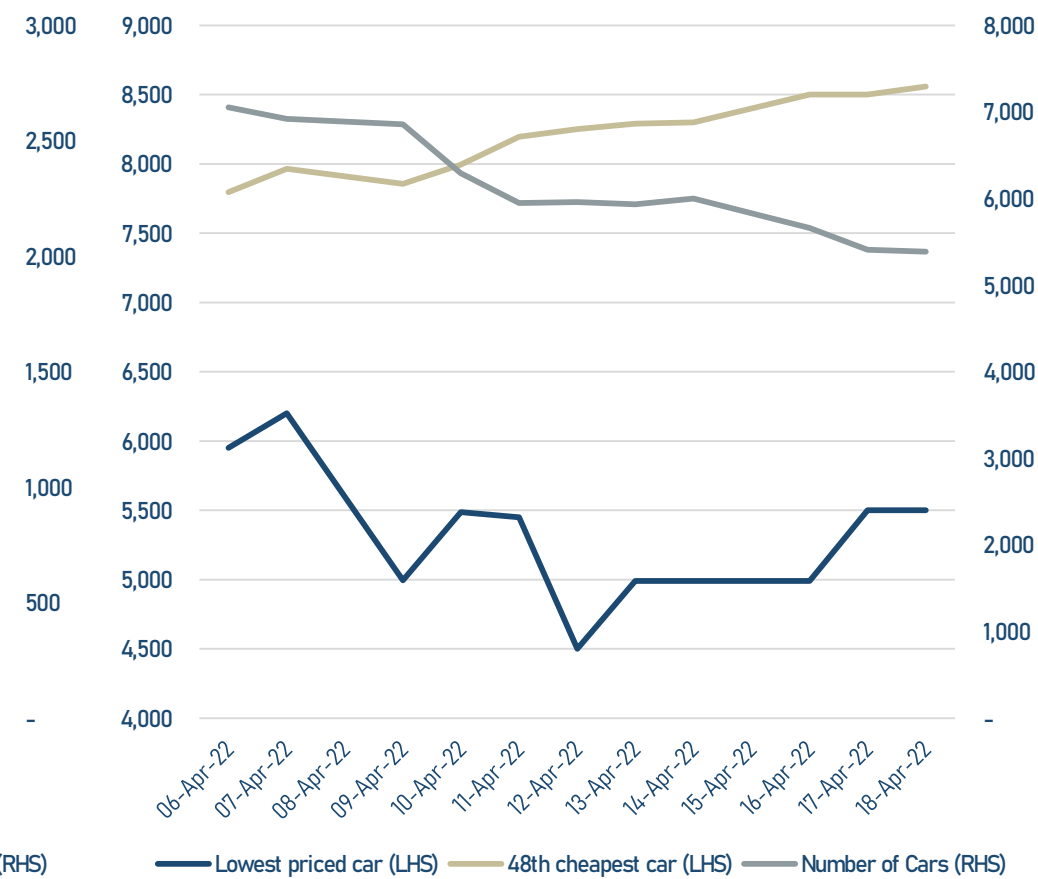
<https://publish.manheim.com/content/dam/consulting/ManCons-qtrly-call-202204.pdf>

UK USED CAR PRICES CONTINUE CLIMBING

Vertu Motors Used Cars



Bristol Motors Used Cars



LONDON PROPERTY MARKET IS ON FIRE!



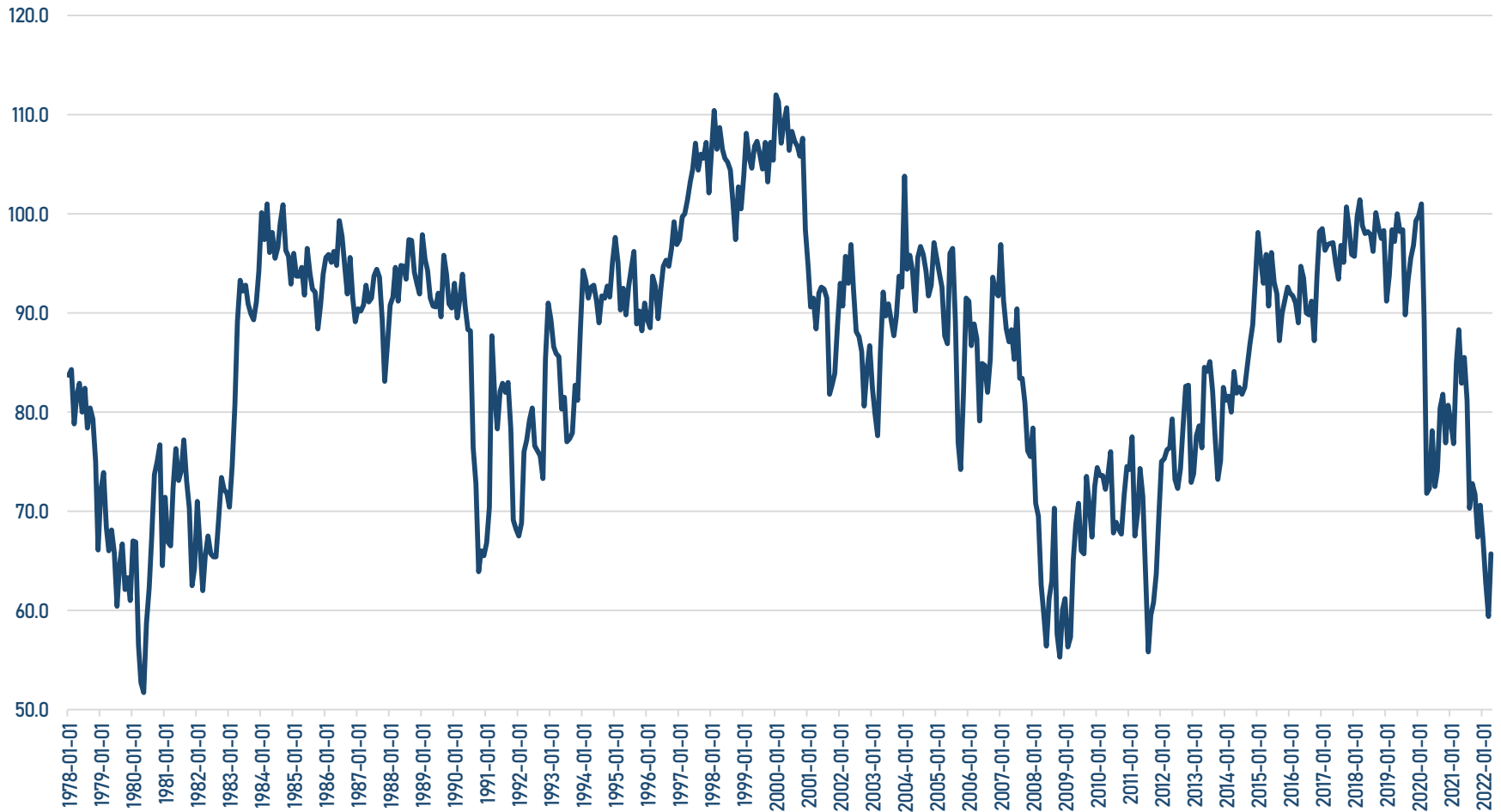
- Chestertons: “Strongest Ever Spring Market”
- March buyer registrations are up 17%, viewings up 16% and offers up nearly 10%
- London property shortage continues.... Also in the rental market
- Rental prices increase by 4.9% in March, are around 10-20% up vs. pre-pandemic
- In March there were 25% more renters looking for a new home than in February
- However, there are 59% fewer properties available now compared to a year ago



2. CONSUMER CONFIDENCE REBOUND

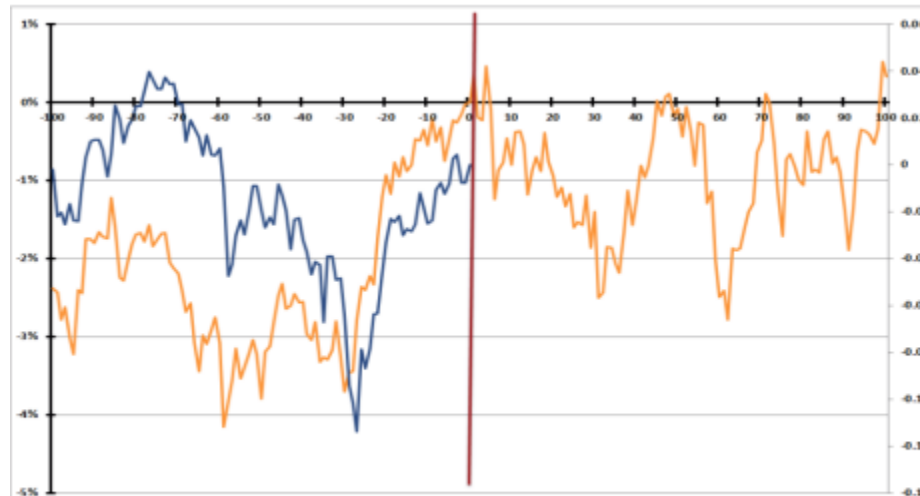
US CONSUMER SENTIMENT JUMPS 10.6% IN MARCH

University of Michigan: Consumer Sentiment



SENTIX INVESTOR SENTIMENT REMAINS POOR

- Swiss SMI Index laid on top of sentiment: Sentix calls for market peak!
- US equities basic confidence points to negative average earnings expectation
- Upper limit on sentiment in commodities is approaching...



Average performance of the SMI index before and after a 12W. Bias momentum as at present and current trend

3. SOMETHING NEEDS TO BREAK...

WW3? COMMODITY CREDIT CRISIS? SUPPLY CRISIS? RATES?

- A mixture of 1920 forgotten depression and the oil crisis of 1973/74 & 1979/80 → WW2 driven by fight for resources (same now)
- If US\$ weakens, commodity prices will rally even more in \$ terms, \$95bn Fed balance sheet reduction vs. \$1.7trn reverse repo liq.
- Politically we move from left to right
 - Germany's open border immigration policy in 2015 might have caused Brexit
 - 7 years later, the UK is sending illegal migrants to Rwanda
- ESG is trigger for rise in commodity prices, perhaps enabling Ukraine invasion, perhaps enabling RMB to become reserve currency?
 - "E" caused commodity price rally
 - "S" caused wrong people in important positions (Energy & Defense ministers)
 - "G" caused bi-polar world



4. HOW THE MICRO FITS THE MACRO

SHORTAGES CAN OPEN UP OPPORTUNITIES

- Portfolio: Centrica, Vertu Motors, IG Design & Hostmore
- Opportunities lie in micro cap energy producers
- Centrica – target £7.5bn market cap:
 - Nuclear business will have 100s of £mio in profits
 - Upstream hedging moved to 30-month forward for 12 months, 25% sold at spot
 - British Gas will not face losses in light of switches from fixed to variable tariff after Ofgem decision
 - Warm weather led to overhedged position, which could be sold at high profits
- Vertu Motors – target £300mio+ market cap
 - £100mio cheaper than all its competitors
 - 5%+ yield including share buybacks
 - Car shortages set to continue

