

January 30, 2015

Dear clients and colleagues,

The US dollar is at a 12-year high against the euro. The Swiss franc jumped 25% in one day. Emerging market currencies are at an all-time low. The Canadian dollar has fallen below US\$0.80. The currency war has reached a new level. Strength in the US dollar has been accompanied by a drop in the price of oil and many commodities.

Earnings season is nearly half way through and has been disappointing thus far. This week, a number of large US based multinationals such as United Technologies (Industrials), Bristol Myers (Pharma), Proctor and Gamble (Staples), Dupont (Chemicals), and Google (Technology), reported disappointing earnings and issued bleak forecasts, blaming a strong dollar amongst other reasons.

If we exclude Apple, the S&P 500 is heading for its lowest profit growth since Q4 of 2009. Profits are now expected to have grown at less than 3% for Q4 and this will likely drop to zero in Q1 of 2015.

Conversely, small cap profit growth is on pace to exceed 10% in the US for the quarter, and will be higher than what is expected for Europe and Japan. For the first time in over 15 years, the MSCI Global Small Cap is selling at a discount to the MSCI World, using 2015 expected earnings. This presents a nice opportunity.

At Global Alpha, our approach is to add value through security selection. Currency and industry risks are managed to neutralize their impact. Our security selection, however analyses the risks faced by our companies, including currency exposure.

We have a number of companies in the portfolio that are listed on stock exchanges outside the US, yet derive a large part of their revenues and growth from within the US.

An example is Homeserve, www.homeserve.com. You can think of Homeserve as the AAA (CAA) of homeowners. Instead of road assistance, it offers plumbing, electricity, heating system or hot water tank repair, and emergency services.

While originating and serving over 2 million households in the UK, Homeserve successfully entered the US in 2006, which is now its fastest growing region and approximately 20% of its sales. In November 2014, the company signed an affinity program with AARP (the American Association of Retired Persons) to offer its insurance policies to 22 million households. The US should overtake the UK in the coming years as the largest market for Homeserve.

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The company we profile this week has been in the portfolio since its inception.

Autogrill (AGL IM - €7.59)

<http://www.autogrill.com>

Business Overview

You may have driven the New York State Thruway to Albany or the Illinois Turnpike to Des Plaines. Perhaps instead, you took a plane at LAX to go to Tampa. If you bought food or beverages in any of those places, you were a client of Autogrill, or to be more precise, its US subsidiary, HMS Host. Autogrill is the largest food and beverage company serving travelers around the World. Since the stock spin-off of World Duty Free in 2014, the new Autogrill generates half of its revenues and two thirds of its profits in the US. 50% of its global revenues come from airports and 40% from motorways.

Target Market

Autogrill's market is large and growing, and mainly captive due to the concession nature or the company's locations. Air traffic grows faster than the GDP. Economic growth and lower oil prices drive road traffic, creating a positive trend at the moment, especially in the US.

Competitive advantage

The company's concessions run from 5 to 50 years, with an average duration exceeding 7 years. Once the company gains a concession, it becomes the operator and makes all the decisions of what brand to have on site. It is the largest franchisee of Starbucks, Burger King, and so on. It also has its own brands. Each location enjoys monopolistic characteristics.

Growth strategy

Obtain new concessions and optimize existing concessions
Penetrate emerging markets

Management

The management team has been together for over 10 years. The Benetton family controls the company (50.1% ownership).

Risks

Rising rent for concessions
High fixed costs
Macro factors, weak economy, higher oil prices, etc.

Catalysts

Lower oil prices driving increased traffic
Lower food inflation
Stronger US dollar (translation effect)

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