

# Update on takeover of AFH



P&R  
Investment Management

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Dear investors,

**Last Friday, AFH Financial Group plc (AFH) held a court meeting at which 91% of the voting members voted in favour of the takeover. AFH will be delisted and transferred to the new owner. On 17 March our fund had already sold our position in AFH after it became clear that the takeover would go through. Our investment IRR, based on all purchases since February 2020 and our recent sale, is 25%.**

While the voting result seems to indicate a clear picture, the situation was much less obvious up to a certain point. Let me explain.

On 25 January AFH announced a recommended cash acquisition at £4.63 per share - far too low in our opinion. We believe that AFH can be worth around £12 per share in 5 years. We explained our rationale in our evaluation report, exchanged our view with other shareholders and voiced our disappointment to the chairman. Based on our conversations with fellow shareholders I was hopeful to see strong resistance. And indeed, AFH postponed the convened meeting to an unspecified date – a sign that 25% or more of the eligible votes were against the deal. At that point our fund had accumulated 3.5% of eligible votes.

Unfortunately, one major shareholder was then persuaded to sign over his shares at £4.80 per share – just a touch above the initial offer. That shareholder was the linchpin. After that several long-term shareholders - including us - sold their shares in the market at prices close to £4.80. The buyers were short-term arbitrageurs who were in favour of the deal. Hence the clear result.

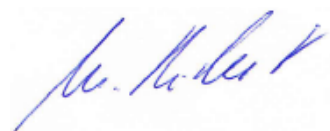
Why did the shareholder accept such a small improvement? I suspect great salesmanship on the part of the other side (*chapeau!*), fear of a drop in the share price and little motivation for active engagement. The position was probably too small to move the needle. In contrast, our position in AFH accounted for 10% of our fund. We were ready to defend our ownership through tough negotiations.

In the end we achieved an IRR of 25% since our first purchase over a year ago. That's pretty good. But compare that to the prospect of about 25% *annually over the next five years*. So I'm more than a little disappointed that we had to let go of AFH.

On to the next young elephant.

With best wishes from London,

Matthias Riechert



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