ELCANO SICAV returned -18.1% so far in 2015, net of fees and expenses. Since inception in December 2009, cumulative performance is 32.6%, equivalent to a compound annual return of 4.9%.

During the months of September and October:

- We sold all the shares in the secure cash transportation company Brinks (BCO:US) with a 25.2% total return (11.8% annualized) over two years and an average 4% weight.

- Despite no new investments and just one sale, we took advantage of recent market volatility to rebalance the portfolio, increasing the fair value per share by 8%.

In recent reports we split the portfolio into 3 strategies: cyclicals, neglected and turnarounds. Today we will further elaborate on the turnarounds: our experience, framework and **Kodak (KODK:US)** as a case study.

Since inception ELCANO sicav has invested in 15 turnarounds (roughly 20% of the portfolio) of which 6 are still ongoing and in the portfolio. The table below shows our average holding period and the total and annualized return. The market hasn't given full credit to the progress already made and the improvements that are still possible.

Realized	Months	Return	CAGR
Swiss Re	49	64%	13%
Tyco International	17	28%	18%
Carrefour	38	45%	13%
Hartford	14	73%	62%
Hewlett Packard	24	102%	43%
Goodman Fielder	14	11%	10%
American Eagle	11	51%	51%
Symantec	20	29%	16%
Brinks	24	25%	12%
Average	**23**	**47%**	**26%**

Current Holdings	Months	Return	CAGR
KODAK	23	-23%	-13%
Chemtura	8	11%	11%
POSCO	30	-24%	-11%
General Cable	18	-9%	-6%
Bilfinger	15	-19%	-15%
FirstGroup	28	-12%	-5%
Average	**20**	**-13%**	**-7%**
Average (all)	**22**	**23%**	**13%**

Source: Elcano sicav. Bloomberg

Investment opportunity arises because the market often ignores the potential in an attractive but mismanaged business. Generally, 4 years of decline are followed by the 4 years it takes to complete the turnaround. Usually the best entry point is at the inflection, when the business is in its worst financial health and management is replaced.

In our experience, successful turnarounds require 5 factors: the presence of a good business; new management that is capable and in full control; availability of financing; improving employee morale; and good communication.

Although external shifts (macro, social, competitive or technological) act as triggers, the ultimate cause is bad management, often reflected in one-man rule, with a leader surrounded by incompetent bureaucrats and a non-participative board. Management reacts slowly to external changes, control information is very poor and/or management fails to act on it, and the company often embarks on unrelated diversification, overpaying and weakening the balance sheet.

The first step is the replacement of the CEO who often brings in the CFO and COO. Turnaround CEOs are strong leaders with ample operating and financial experience, entrepreneurial, and capable of taking difficult decisions. His first task is to make a diagnostic and write a viability plan that consists of:

- An assessment of the company's financial, competitive and human resources.
- Identification of the viable core business that will support the company through the turnaround. Get creditor support.
- Segmentation of existing businesses into keep/sell based on relative importance, competitive strength, investment needs, etc.
- Devising a strategy to improve profitability in the retained businesses.

Once the plan is approved, the company moves to execution in 3 steps:

- In the emergence phase the company: a) applies extreme cost cutting and cash control to stop bleeding cash; b) strengthens the balance sheet with disposals; c) focuses on key products, key clients and key channels.
- In the stabilization phase management tries to reposition the company for long term growth. A new organizational structure is created with well defined responsibilities, objectives and incentives. Powerful information and control systems are implemented together with efficient processes. The majority of our investments are in this phase.
- In the return to normal phase, the company redirects its marketing and R&D resources to those areas deemed more financially promising, and may include bolt-on acquisitions.

After the turnaround, the company has several advantages over competitors: low costs, right incentives, high morale, zero bureaucracy, fast decision speed and better growth opportunities given its reduced size.

After presenting the framework, we will review Kodak's business, its turnaround process and the valuation.

Kodak is a leader in commercial digital printing, holding an average 20% share in an attractive industry, one with a limited number of players given strong barriers to entry, and moderate rivalry due to customer captivity. 80% of revenues are annuity based in the form of inks, replacements and services. The market grows 5% a year driven by technological substitution (analog to digital) and socioeconomic trends. Kodak's knowledge of digital imaging, material science and deposition processes, together with its integration capabilities, makes its products the best in the industry, in quality and performance.

Kodak is run by Jeff Clarke, a reputated industry veteran, chosen by the 6 shareholders that control 70% of the capital. His turnaround strategy has 2 parts:

- Repay the covenant-heavy and expensive exit facility ($411mn at 7.5% and $275mn at 11%) with:
    - Internal cash generation: Kodak currently holds $266mn in the US ($255mn sits in its international subsidiaries) and we expect $100mn of cash inflows before interests in the coming 12 months.
    - Refinancing with a new issue. 3x EBITDA is a reasonable leverage for Kodak, implying capacity of $300mn in 2015 and over $400mn in 2016.
    - Disposals. Kodak owns non-core real estate and Intellectual Property assets (patents) with an estimated value of $500mn.
- Improve profitability. Benchmarking Kodak against competitors and similar business models, we think over the medium term its EBITDA should exceed $300mn, compared to $120mn today and $180-210mn guided for 2017. Because its high proportion of fixed costs, the key is to generate revenue growth.

After cutting structural costs by $160mn, Kodak has organized itself into 7 autonomous divisions with clearly assigned responsibilities, goals and incentives, gaining in transparency and agility.
With the right structure, the company is focused on maximizing the potential of what they call the growth engines (20% of revenues) whilst preserving the cash flow generation of the mature businesses (80% of revenues). At the same time, the company aims to increase the share of growth engines by launching its solution for the large touch sensor market (currently in pre-commercialization) and by getting more from the Kodak Research Labs where Kodak spends $80mn a year and has a 7,000 patent library.

The table below shows Kodak's revenues split into mature and growing, the high proportion of fixed costs, its cash generation, the high cost and the potential sources to repay its emergence debt.

KODAK Financial Summary (in $bn)	2015 (Est)	2016 (Est)	2017 (Est)
Mature businesses	$1.390	$1.350	$1.339
Δ %		-3%	-1%
Growing businesses	$438	$509	$608
Δ %		16%	19%
Revenues	$1.828	$1.860	$1.947
Δ %		2%	5%
Gross Profit	$438	$484	$514
Margin %	24%	26%	26%
Fixed costs (R&D, SG&A)	-$340	-$340	-$340
EBITDA	$98	$144	$174
Capex	-$70	-$45	-$40
Operating Free Cash Flows	$28	$99	$134
Debt retirement sources:			
Cash (in the US)	$266		
Non-core assets	$500		
New Debt @ 3x EBITDA	$295		
Total	$1.061		

Source: Elcano sicav; Kodak

We value Kodak's equity between $1.6-3.1bn, against a current market capitalization of $500mn, providing us with an ample margin of safety and profit potential. As Kodak turnaround meets the 5 success factors we expect to see a progressive improvement in profits that will eventually get market recognition.

KODAK "Sum of The Parts" . In $bn	Low	High
Mature Businesses (Print Systems, Consumer & Film) [1]	$1.000	$1.000
Growing Businesses (Flexo, Inkjet Systems, Software) [2]	$500	$1.000
Micro 3D Printing [3]	$0	$500
Total Businesses	**$1.500**	**$2.500**
Intellectual Property (Carestream, EPS, other) [4]	$200	$500
Real Estate (ex- own use) [5]	$300	$300
Tax Credits [6]	$0	$200
Fair Value	**$2.000**	**$3.500**
Debt	-$686	-$686
Cash (ex- $250mn operating)	$325	$325
Equity Fair Value	**$1.639**	**$3.139**
Market Capitalization	$500	$500
Margin of Safety	69%	84%

Basis: 1) 8x EBITDA 2) 1~2x Sales 3) 0% to 5% OF market at 2x Sales 4) Carestream earnout potencial $200mn. 7,000 patents 5) Book Value / $25sqf space / 10x lease revenues 6) $1,5bn NOL

The portfolio of 21 companies trades at 12x 2015E earnings and 5x normalized, carrying a 15% discount to book value and over 60% to our fair value estimate. We are confident that the combination of good quality and low price will translate into attractive compound returns over the medium and long run.

Thank you for your trust and please do not hesitate to contact us should you have any queries.

All the best,

Marc Batlle, CFA
Partner

JJ Fernández
Partner

ELCANO SICAV

Global Value Investing

Adding Value Through Research

Report nr. 35 | Year VI | 1st November 2015

Net Asset Value: €13.11 euros (10/30/2015)
Source: Credit Suisse Gestion S.G.I.I.C., S.A.

Investment Approach

Elcano Inversiones Financieras, SICAV, S.A. seeks to acquire shares in exceptional businesses at a discount to its intrinsic value. Elcano looks for companies with a sustainable competitive advantage that we can understand, a strong financial position and an honest and skilled management team. Decisions are based on financial and strategic analysis, and we are not restricted to any particular asset class, geography or sector.

Comments on Recent Activity

ELCANO sicav sold all the shares in the secure cash transportation company Brinks (BCO:US) with a 25.2% total return (11.8% annualized) over two years and an average 4% weight. Despite no new investments and just one sale, we took advantage of recent market volatility to rebalance the portfolio, increasing the fair value per share by 8%.

Top Holdings

Company	Sector
General Cable	Capital Goods
Rayonnier Advanced Materials	Chemical
AECOM	Capital Goods
Kodak	Office/Business Equip.
Diamond Offshore	Oil & Gas Services

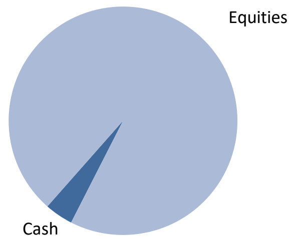
Portfolio Recent Actions

Increase/ In	Decrease/ Out
	Brinks

Main Terms

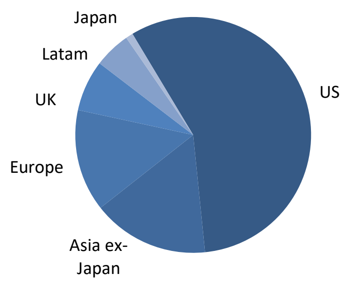
Investment Universe	:	Global equities
Asset Management Company	:	Credit Suisse Gestion, SGIIC
Depositary	:	Credit Suisse AG, Suc. España
Auditors	:	Deloitte
Regulator	:	CNMV
Listed Market	:	*Mercado Alternativo Bursatil*
Management Fee	:	1.50% per annum
Annual Performance Fee	:	10% above 5% level (with HWM)
Depositary Fee	:	0.10% per annum
ISIN Code	:	ES0118626037
Inception Date (new Board)	:	1st December 2009
Currency	:	EUR
Liquidity	:	Daily
Asset Under Management	:	€64,650,000 (10/30/2015)
Number of Shareholders	:	569 (10/30/2015)
Bloomberg Code	:	CIF SM <equity>
Ticker	:	S0646

Asset Distribution



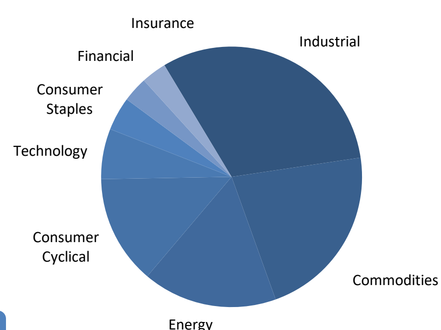
Asset Class	
Equities	96%
Fixed Income	0%
Cash	4%

Geographical Distribution



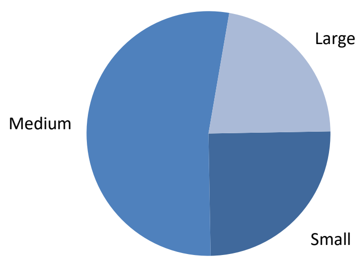
Region	
US	57%
Asia ex-Japan	16%
Europe	14%
UK	7%
Latam	5%
Japan	1%
Switzerland	0%

Sector Distribution



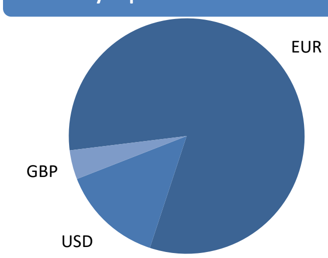
Sector	
Industrial	31%
Commodities	22%
Energy	17%
Consumer Cyclical	14%
Technology	6%
Consumer Staples	4%
Financial	3%
Insurance	3%
Telecom	1%
Utilities	0%
Health & Pharma	0%

Capitalization Distribution



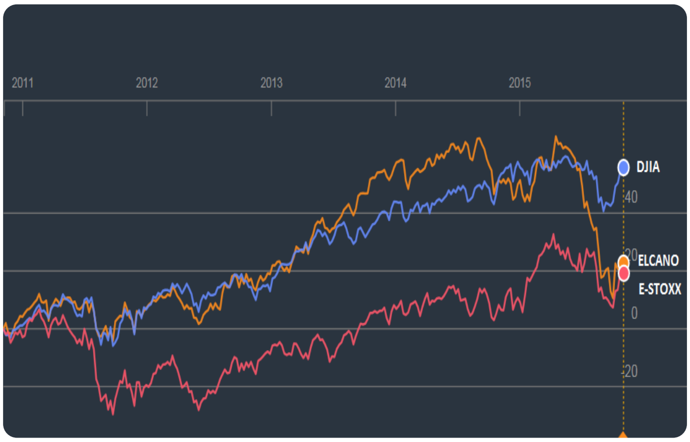
Capitalization	
Below €1bn	25%
€1bn to €5bn	53%
Above €5bn	22%

Currency Exposure



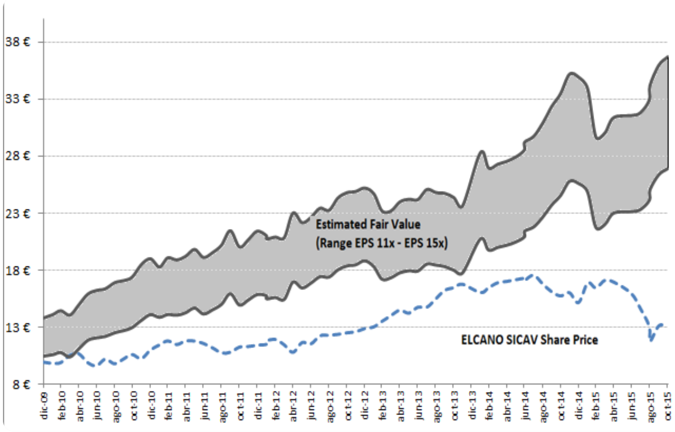
Includes FX Hedge	
EUR	82%
USD	14%
GBP	4%
CHF	0%

Price of ELCANO vs. Other Major Equity Indices



Source: Bloomberg (Last 5 years).

ELCANO Share Price Vs. Estimated Fair Value (Range PE 11x - PE 15x)



Source: ELCANO SICAV, Bloomberg.

Return and Volatility Data

Return	
2015 (Year to date)	-18.1%
Year 2014	-4.2%
Year 2013	+32.6%
Year 2012	+10.4%
Year 2011	+3.8%
Year 2010	+10.7%
Year 2009 (From 1st to 31st Dec 2009)	+0.4%
Since inception (1st Dec 2009)	+32.6%
Volatility	15.7%

Source: CreditSuisse SGICC, Bloomberg, ELCANO SICAV

Risk & Reward Profile (SRRI)

Lower risk						Higher risk
Potentially lower rewards						Potentially higher rewards
1	2	3	4	5	6	7

ELCANO SICAV's "SSRI" rating: **7** in a risk metric going from 1 up to 7.

The SRRI represents the risk and return profile present in the Key Investor Information Document (also called "DFI", or"Datos Fundamentales para el Inversor"). The lowest category does not imply that there is no risk. The SRRI is not a guarantee and may change over time.

Source: DFI Document ("Datos Fundamentales para el Inversor"); www.cnmv.es.

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