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EQUITY PARTNERS

**GLOBAL SMALLS, TOO GOOD TO BE TRUE?
(12 mins)**

July 2022

POSITIVES YOU ALREADY KNOW

- ✓ Historically faster revenue growth
- ✓ Under-followed (analyst coverage)
- ✓ Historical outperformance (small cap premium)
- ✓ Strong diversification properties vs. Large Caps & EM
- ✓ Greater protection against the 'law of large numbers'

NEGATIVES YOU ALREADY KNOW

- ✓ Higher beta to economy and 'risk off' environments
- ✓ Lower liquidity
- ✓ More 'locally vs globally' focused
- ✓ Weaker disclosure on some of the smaller exchanges

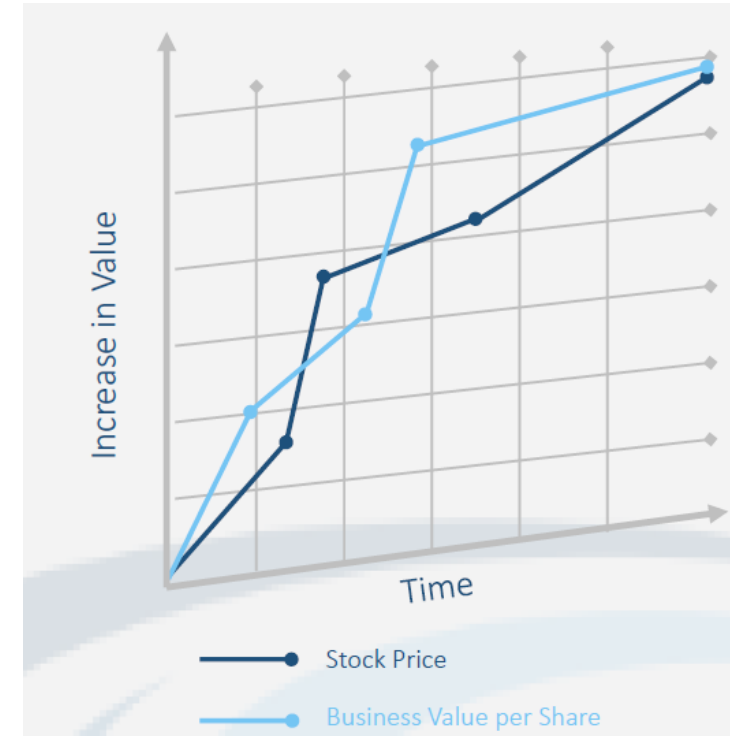
HOW WOULD A 'BUSINESS OWNER' APPROACH INVESTING?

ACHIEVING LONG TERM OUTPERFORMANCE

Stock returns follow growth in intrinsic value of the business

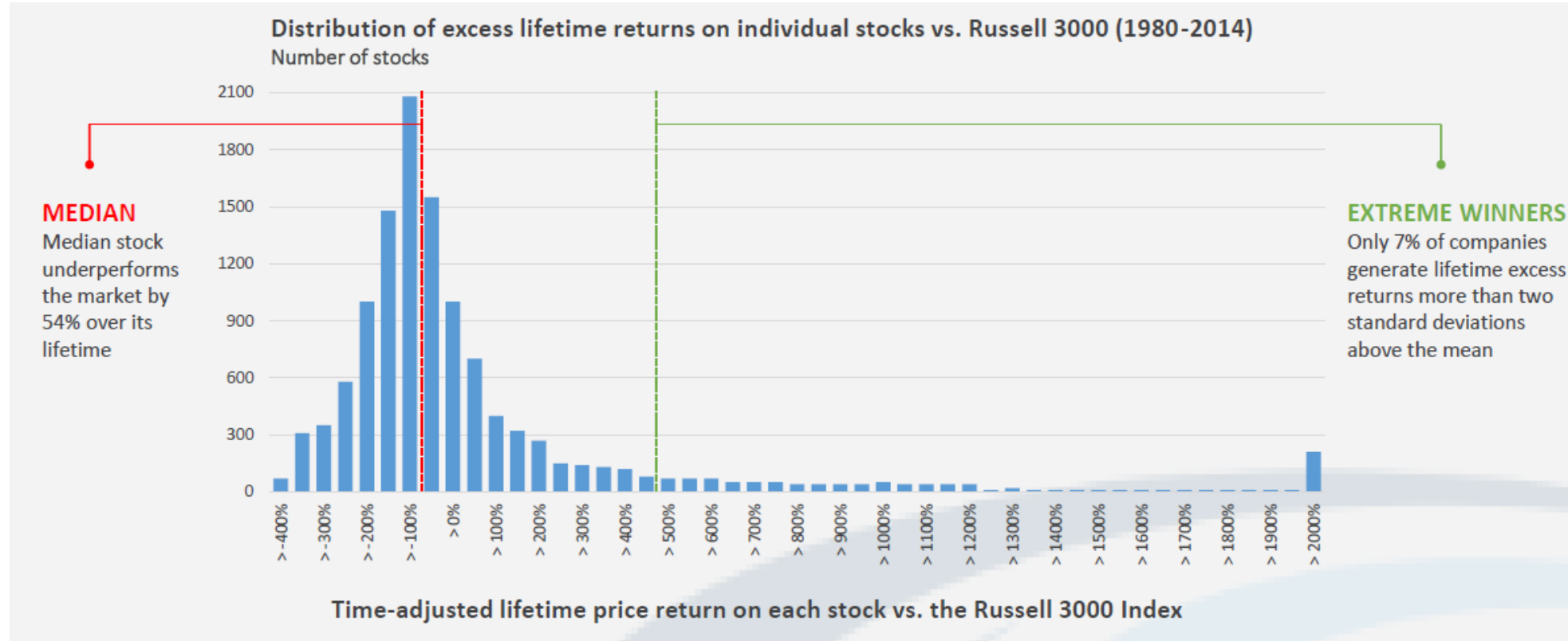
- Given a long enough time horizon
- Absent dividends
- Absent multiple expansion and contraction

We seek to identify and evaluate businesses that can compound intrinsic value at high rates over the long term



Exceptional stock price performance must come from
exceptional compounding of underlying business value!

EXCEPTIONAL COMPANIES DELIVER EXCEPTIONAL RETURNS



Owning 100+ companies will not allow you to
benefit from future “outlier winners”

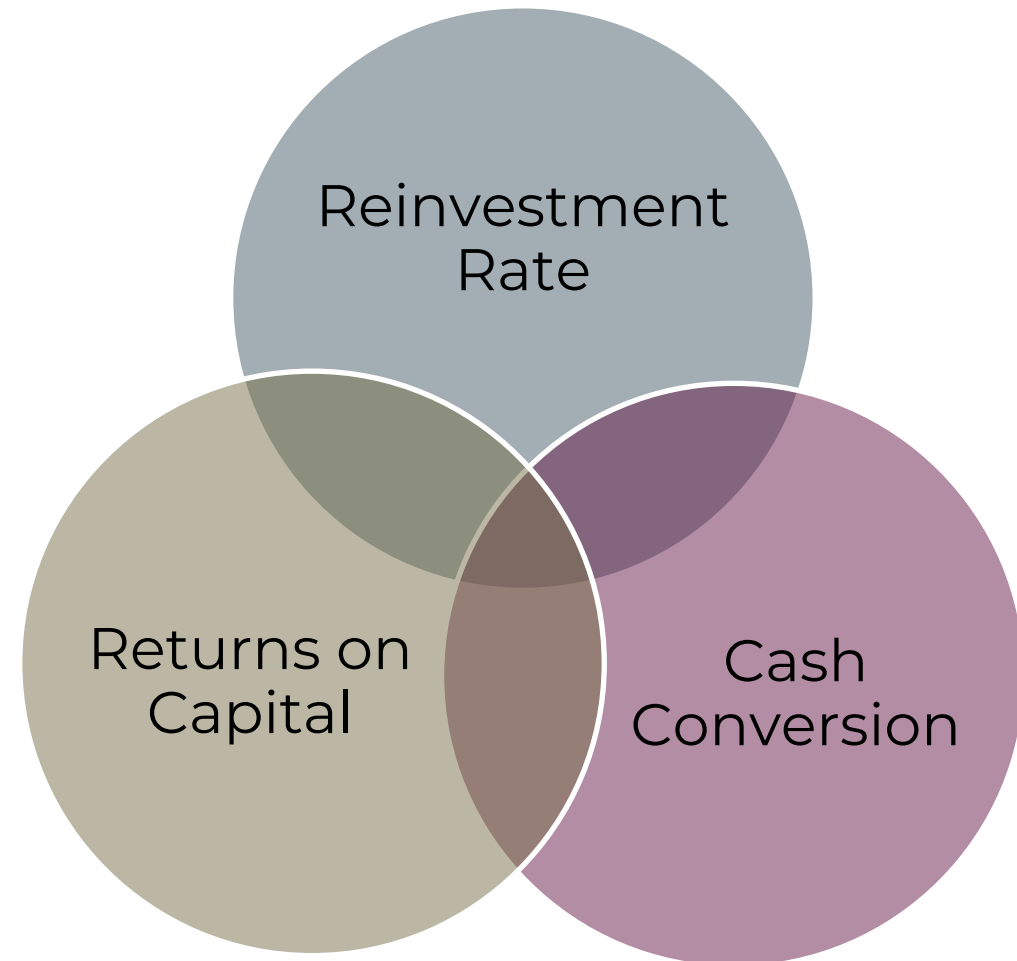
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ANATOMY OF A COMPOUNDER

Strong

- 1) Returns on Capital (EBITA / IC)
- 2) Cash Conversion (FCFm / NI)
- 3) Reinvestment Rate (simple defn)
- 4) FCF margins (FCF/Revenue)
- 5) Balance sheet (ND/EBITDA)

= A SPECIAL COMPANY



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TOP QUINTILE FCF MARGIN IN LARGE CAPS IS ~23% VS SMALLER COS ~14%



— Prairie Sky (Canada) – 83%

Thule Group»

— Thule Group (Sweden) – 14%

M E D P A C E

— Medpace (United States) – 24%



— Goosehead Insurance (United States) – 22%



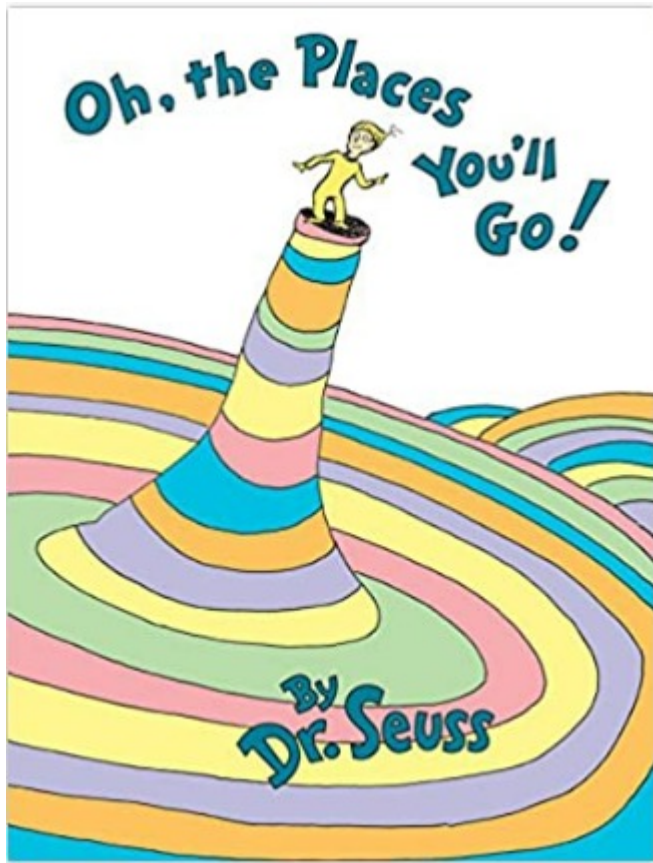
— Dalata Hotels (Ireland) – 27%

** 4 YR average trailing cash flow margin **

Source: Company filings

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MINDSET OF A 'BUSINESS OWNER'



The Waiting Place...
... for people just waiting.
Waiting for a train to go
or a bus to come, or a plane to go
or the mail to come, or the rain to go
or the phone to ring, or the snow to snow
or the waiting around for a Yes or No
or waiting for their hair to grow.
Everyone is just waiting.

DR SEUSS.

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THE WAITING PLACE – IN THE STOCK MARKET...

...for smaller companies just waiting.

Waiting for INFLATION to go

Or INVENTORY to come, or SUPPLY CHAIN ISSUES to go

Or a TAKEOVER to come, or the ACTIVIST to go

Or the phone to ring, or the snow to snow

Or the waiting around for a Yes or a No

Or waiting for their revenue to grow.

MANY companies are just waiting....

**MINDSET OF A
BUSINESS OWNER**

RELENTLESS
DISCIPLINED
CURIOUS PASSIONATE
PROACTIVE
SCRAPPY HUMBLE INTELLIGENT
PERSISTENT COMMITTED
RESOURCEFUL CARING
CREATIVE

RECAP

- The 'traditional' benefits of the asset class are significant and persistent over time
- Typical active management (100 stocks, benchmark aware) not enough
- A concentrated portfolio of SMALLER COMPOUNDERS run by 'business minded investors' can unlock risk reward potential not found in traditional small cap or large cap

Sounds too good to be true?

FINAL BIT OF FUN WITH NUMBERS...

Today there are 5 companies with an Enterprise Value of 1T+

$$\$1 * (1 + 15\%)^{10} = \sim \$4$$

Today's \$250B companies need to be \$1T+ in 10 years

There will need to be > 30 \$1T companies in 2032

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