



Highwood

VALUE PARTNERS

April 2025

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Footnotes:

1. Source: Nasdaq eVestment, Sample of 682 European equity funds; Inception on December 9, 2019. Please ask for more details.
2. Performance figures presented are the returns of the Highwood Value Partners Client Composite. The Highwood Value Partners Client Composite ("The Composite") is the asset-weighted return of all Client Accounts managed by the Firm according to Highwood's Investment Mandate and meet the inclusion criteria of the composite. Highwood's Investment Mandate is fundamental value investing with an opportunistic, concentrated and long-term approach, focused on International public equities. For inclusion in the Composite client accounts must have a net asset value of at least \$100,000 CAD and be managed with full discretion. Client accounts meeting these requirements are included in the Composite after the first full month of discretionary management. The Composite returns are stated after all fees paid to Highwood, withholding taxes, transaction expenses and sales taxes in Canadian Dollars. The Firm's chosen benchmark index is the MSCI Europe SMID Cap Index in Canadian dollars. This is the market capitalisation weighted index of 1,110 European companies with market capitalisations from \$35bn USD to \$100mn across 15 developed countries in Europe. Where the Firm references the performance of this index, it is expressed as total return (ie including dividends), net of fees in Canadian Dollars. Full details of the methodology used by MSCI in the calculation of returns of this index is available [here](#).

Highwood Value Partners

Highwood is:

- A private investment partnership with two partners.
- A fundamental value investor with a concentrated and long-term approach focused on European equities.
 - Shares are partial ownership in businesses, not pieces of paper. We are a buyer of businesses, not a trader of stocks.
 - The public equity market is our servant, not our master. We only make investments when the public market gives us a great deal.
 - We concentrate our capital in 10 - 15 positions at any one time.
 - Mission: Turn every \$ of investors capital into \$5 over ten years without taking undue risk.
 - We are based in Whistler, BC.



‘Fishing Where the Fish Are’

Desmond Kingsford
Andrew Salter (Intern)

Agenda

1. The True Alpha Opportunities: Where were they? What did they look like?
2. 'Trophy Rainbow Trout': Those opportunities with a Margin of Safety at the outset => Low Risk & High Return.
3. Case Studies
4. Learnings: Mental Models => Where the true alpha opportunities are hiding in plain sight..

Casting the Net Widely: Screening Criteria

The screenshot shows the S&P Capital IQ Company Screening interface. The search criteria are as follows:

- 1. Market Capitalization [01/01/2020] (\$USDmm, Historical rate): is greater than 100 (13649 results)
- AND Geographic Locations: Poland (Primary) OR Hong Kong (Primary) OR Japan (Primary) OR Singapore (Primary) OR Australia (Primary) OR New Zealand (Primary) OR Israel (Primary) OR United States and Canada (Primary) OR European Developed Markets (Primary) (13649 results)
- 2. Industry Classifications: Energy (Primary) OR Real Estate (Primary) OR Materials (Primary) OR Industrials (Primary) OR Consumer Discretionary (Primary) OR Consumer Staples (Primary) OR Health Care (Primary) OR Financials (Primary) OR Information Technology (Primary) OR Communication Services (Primary) OR Utilities (Primary) (8397 results)
- 3. EBITDA [CY 2019] (\$USDmm, Historical rate): is greater than 0.001 (Unreported data set to 0) (8397 results)
- 4. % Change - Dividend Adj. Day Close Price [01/01/2020-01/01/2025]: is greater than 300 (222 results)

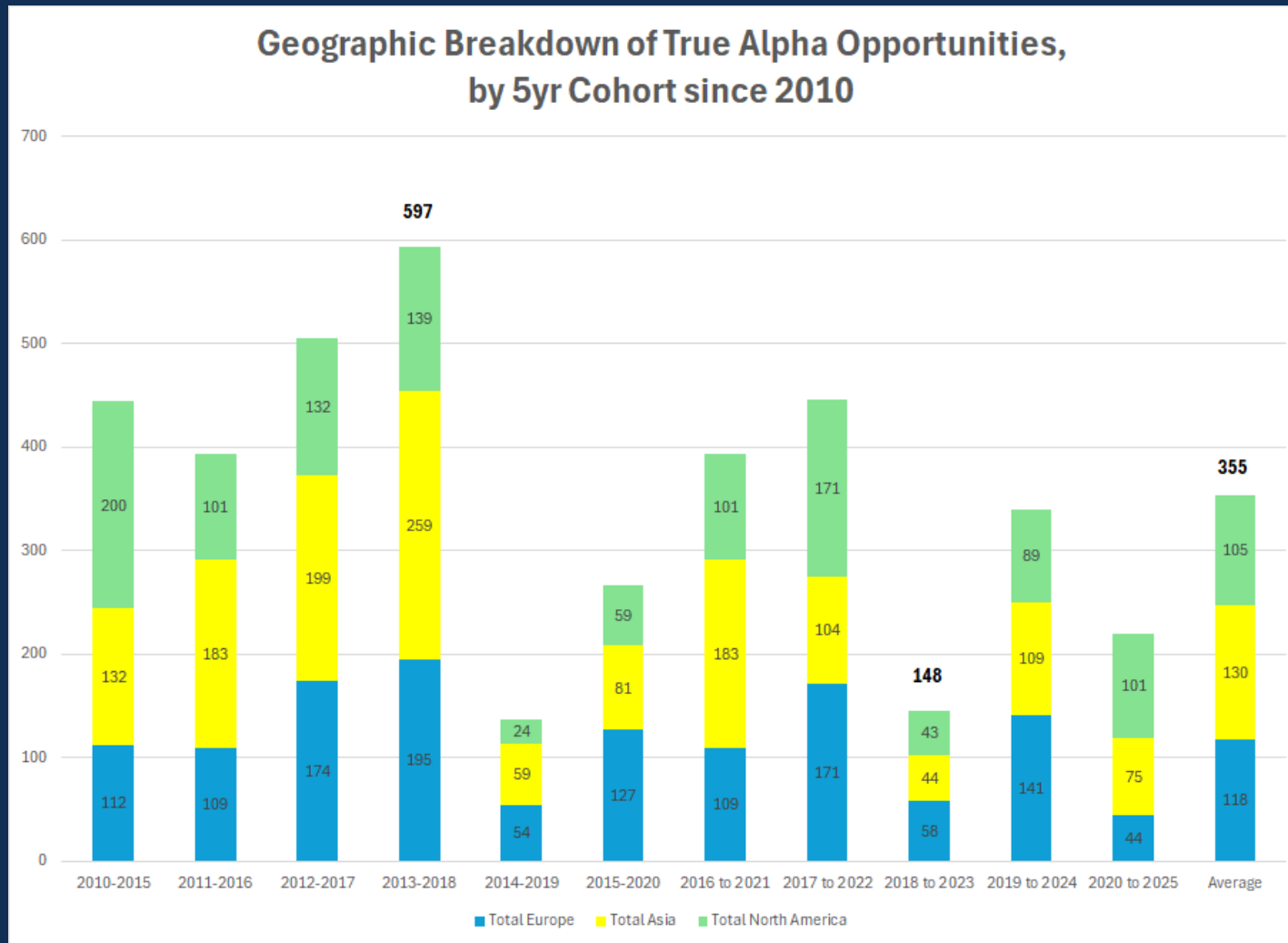
- Market Cap > \$100mn at t = 0
- EBITDA positive at t = 0
- All Industries
- Asia = Australia, NZ, Hong Kong, Singapore, Japan.
- Europe = Western Europe, Israel, Poland
- North America = USA & Canada
- And did 3x money over 5yrs
-Run over 10 different 5yr rolling periods: 2010 to 2015, 2011 to 2016, 2012 to 2017 etc..

Trophy Fish: Those equities that did 3x money or better over any 5yr rolling period since 2010

Cohort	2010-2015	2011-2016	2012-2017	2013-2018	2014-2019	2015-2020	2016 to 2021	2017 to 2022	2018 to 2023	2019 to 2024	2020 to 2025	Average
Total Universe, Number of Cos.	11,026	12,000	11,196	11,382	12,348	12,559	12,000	12,933	14,000	13,177	13,649	12,388
EBITDA positive at t=0	7,322	8,038	7,563	7,564	7,940	8,134	8,038	8,276	8,831	8,297	8,399	8,037
TSR over 300%	446	394	507	597	136	272	394	448	148	341	222	355
Base Rate	4.0%	3.3%	4.5%	5.2%	1.1%	2.2%	3.3%	3.5%	1.1%	2.6%	1.6%	2.9%
	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	<u>Companies of</u>	
	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	<u>Note:</u>	
	AerCap	4Imprint PLC	Actelion	3i Group PLC	Burford Capital	Adidas AG	Adobe	Abbott Labs	Ares	Abercrombie &	ASICS Corp	
	Ashtead Group						Anglo American					
	PLC	AF Gruppen ASA	Addtech AB	Aegean Airlines	Elecom Co.	Catena	PLC	Bio-Rad	Crocs	Arcadis	Auto Partner SA	
	Booking Holdings	Alimentation C-T	Akt. Schouw &	Colliers Int'l.	Evraz PLC	Cargojet Inc	ASML	D'Iteran	Daiichi Sankyo	Athabasca Oil	Bergman &	
	Cheniere Energy	Barratt Redrow	Amazon.com	Kingspan	Games	Fair Isaac	Copart	Fortnox AB	Dino Polska	Eldorado Gold	Dell Technologies	
	Coloplast A/S	Jet2 PLC	ASOS	Koito	KOSE Corp.	FeverTree Drinks	Fox-Wizel	Hermes	Kinsale Capital	GameStop	Hitachi	
	Constellation						Geely		Zimplats			
	Software	Lotus Bakeries	Brembo NV	Lockheed Martin	Trigano SA	MonotaRO	Automobile	Paypal	Holdings	Rheinmetall AG	Sembcorp	
	De'Longhi SPA	Moody's Corp.	Huntingdon	Pandora A/S		Rentokil	Heico	Sony		TerraVest		
	Eurofins	Netflix Inc	Jumbo SA	RWS Holding PLC		Shiseido	MSCI			XPEL		
	JD Sports	Protector	Kobe Bussan	TFF Group			PAR Technology					
	Kinopolis Group											
	NV	Subaru Corp.	Yamaha	The Boeing Co.								
	Zodiac Aerospace	Transdigm	YONEX									

- On average, there were **355 companies** per year out of a total pool of 12,338 that did 3x money or better over a rolling 5yr period.
- “Base Rate” = A monkey throwing darts would have a **hit rate of 2.9%...**
- If you excluded the companies that were loss-making at t=0 the base rate increases to **4.5%**.

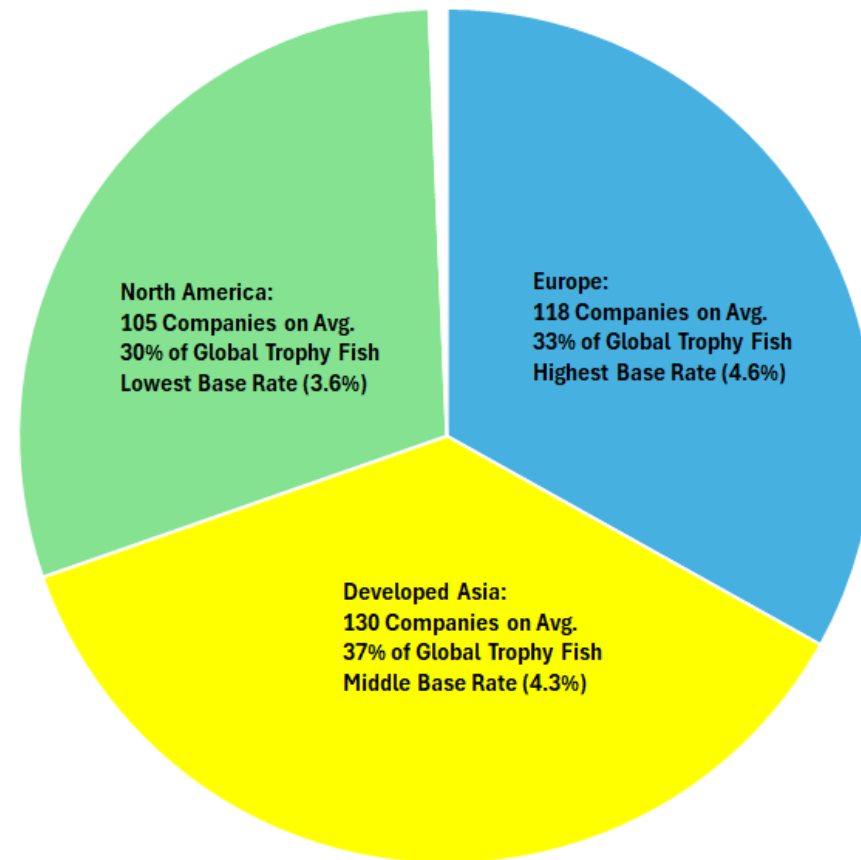
Where were those Trophy Fish: Breakdown by Geography



- Green is North America
- Yellow is Developed Asia
- Blue is Europe

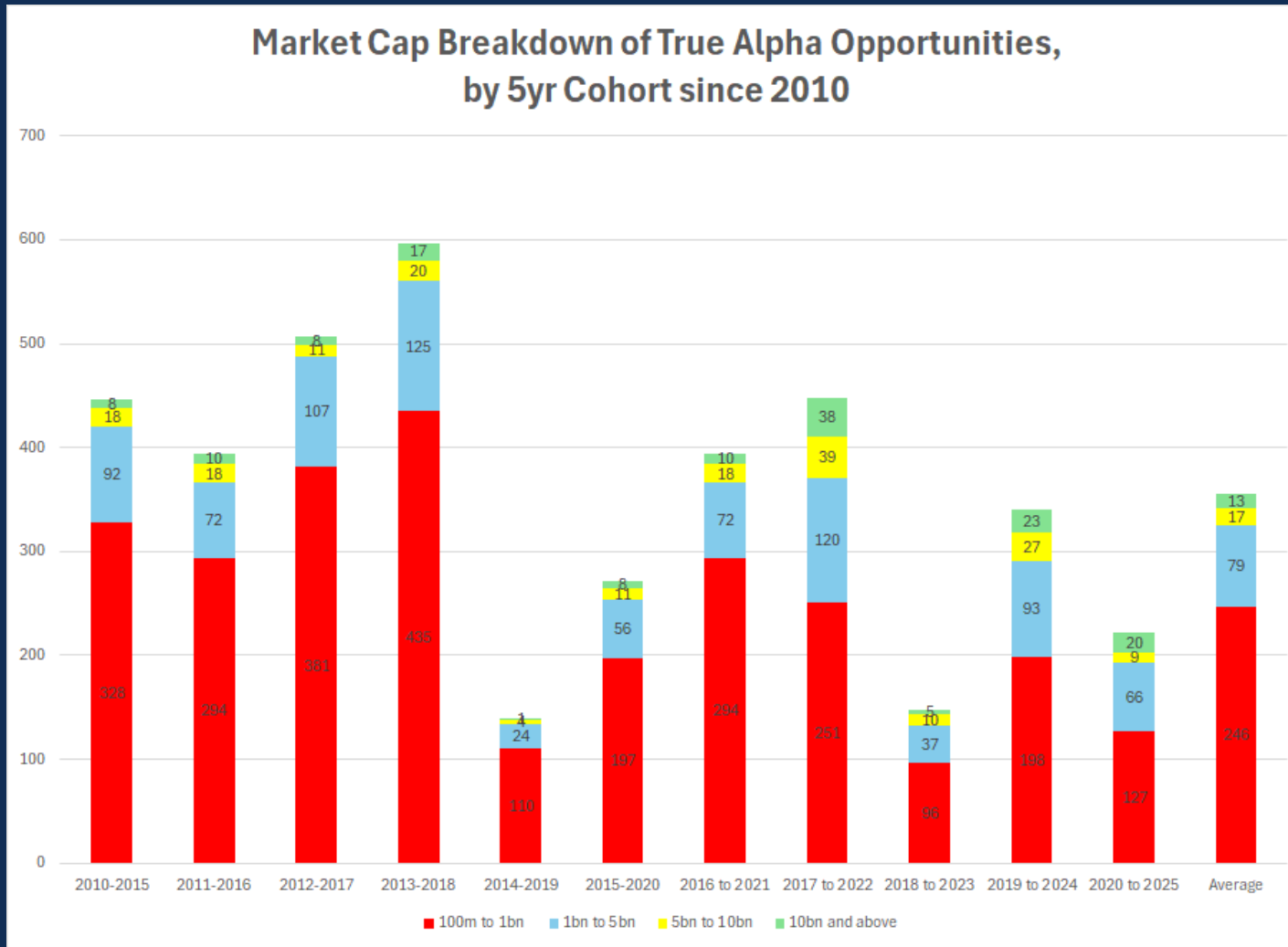
Where were those Trophy Fish: Breakdown by Geography

**Geographic Breakdown of True Alpha Opportunities,
Average since 2010**



- 70% of the True Alpha Opportunities were outside North America
- Just 4% of the True Alpha Opportunities were in Canada (96% were ex-Canada)
- Europe has the Highest Base Rate, North America the Lowest.
- Countries of Domicile with notably high base rates:
 - Sweden
 - Norway
 - Australia
 - UK

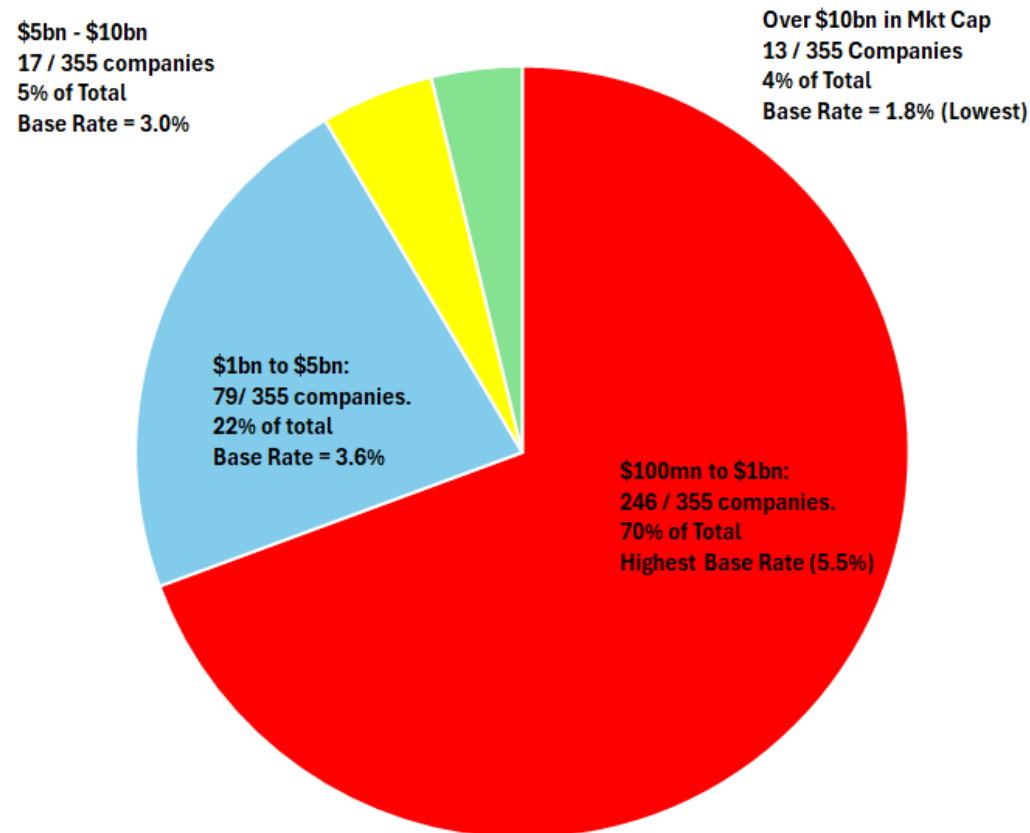
Where were those Trophy Fish: Breakdown by Market Capitalization



- Green is Large Cap at t=0 (\$10bn USD or larger)
- Yellow is Mid Cap (\$5bn to \$10bn at t=0)
- Blue is Small Cap (\$1bn to \$5bn at t=0)
- Red is Smaller Cap / MicroCap (\$100mn to \$1bn at t=0)

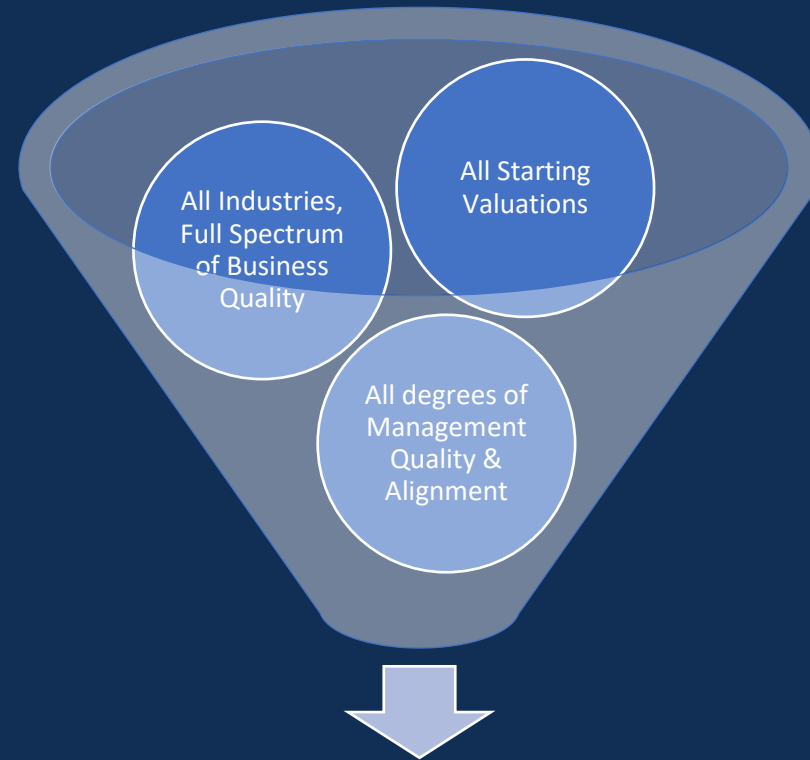
Where were those Trophy Fish: Breakdown by Market Capitalization

**Breakdown of True Alpha Opportunities by Market Cap,
Average since 2010**



- Only 4% of the True Alpha Opportunities were Large Cap
- 92% of the True Alpha Opportunities were sub \$5bn market cap at t=0
- Yes, There are many more Small Caps than Large Caps but the Base Rate in Small cap land is higher than in large cap land.

***But...not all fry that grew into Trophy Fish were investible:
Many of these situations did not have a Margin of Safety to begin
with....***



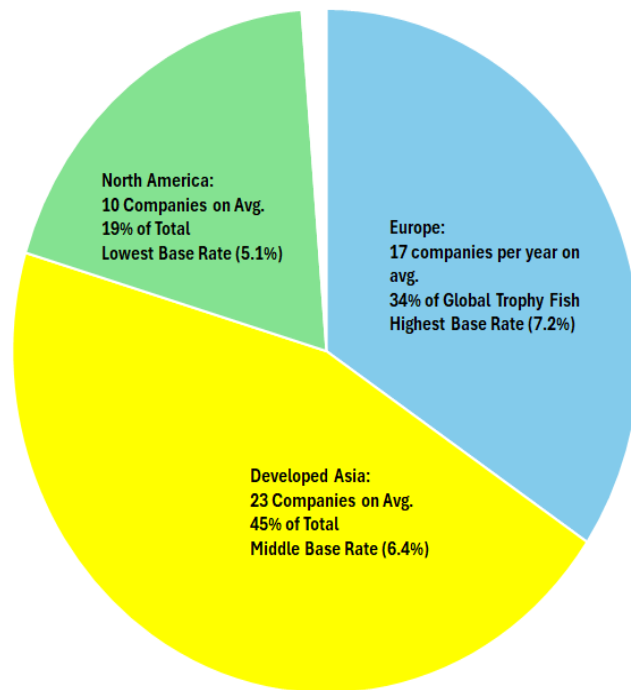
The 'Trophy Rainbow Trout': 3x money AND a starting Margin of Safety.

- Rule #1: The future is uncertain. There are many different paths these companies could have taken and ex-post, we are looking at just one set of paths..
- To protect our capital against this fact, we require a margin of safety.
- We screen out the over-levered, the lucky, the highly rated (eg Gamestop), the low probability turnarounds that turned and the business models outside our circle of competence (eg Biotech) etc..

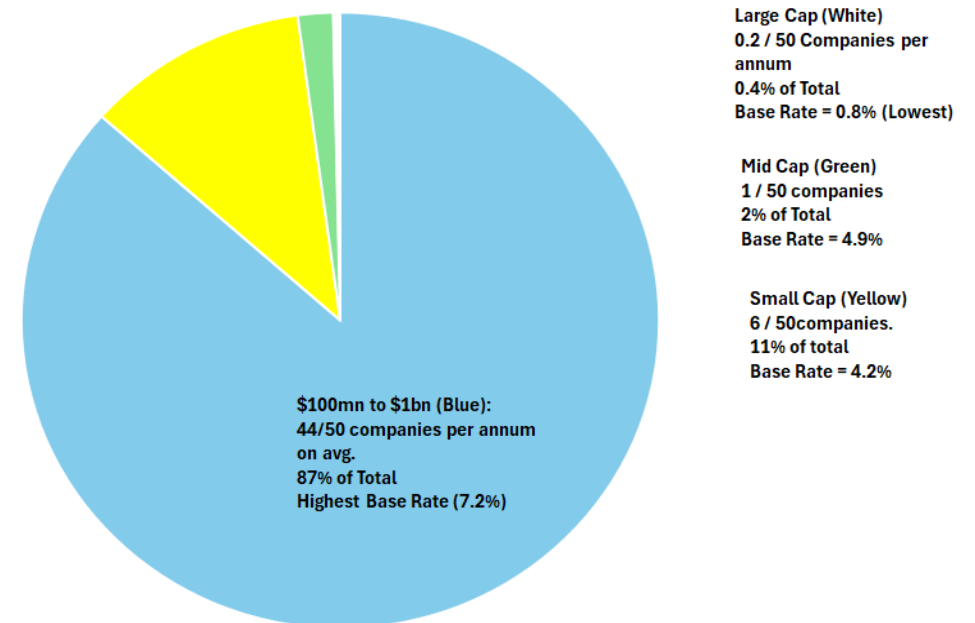
Trophy Rainbow Trout: Where they were + Base Rates

- By Geography: 81% were outside North America; Highest Base Rate was Europe (7.2%)
- By Market Cap: 87% were in \$100mn - \$1bn starting Market Cap

Geographic Breakdown of Trophy Rainbow Trout / Core Value,
Average since 2010



Breakdown of Trophy Rainbow Trout by Market Cap,
Average since 2010





The Fun Stuff: Case Studies & Lessons

Case Study Example: Auto Partner SA (WSE:APR)

In 2020, Auto Partner SA was:

- Polish listed, 155mn USD market cap, growing 20-30% pa at 17% ROIC, 1x ND/EBITDA, 50% owned by Founder/CEO, equity for sale at 8x EBIT and 10xE.
- APR is an auto parts distributor delivering parts from its network of c.200 suppliers to c.200,000 customers (c.60%Repair Shops, 30%Specialist Auto Stores, 10%Retail).
- Revenue was 60% Poland (c.10% share), 40% EU. EU business was growing at 50% pa, Poland growing high teens.
- Business Model: Two-sided network.

Why was it mispriced?

- Below the Radar. Starting valuation was 10x Earnings. Multiple expansion was a small driver of return (26%) vs Earnings growth (237%)
- It grew faster than anyone expected (revs +2.7x) in existing business lines. Revenue growth in Poland was consistent with history(ish) at c.17% CAGR, but the European business grew 40% CAGR such that total revs grew 25% CAGR. Increased scale => some margin expansion.

What would I have needed to recognize to gain conviction?

- Polish market for car parts is in structural growth due to rising income and lower car penetration per capita.
- Autopartner is attractive to OEMs for that reason, and with lower costs for export than traditional European distributors (partly PLN vs EUR).

What were the issues / risks I would have had to grapple with?

- Questions about Electric vehicle penetration.
- FX. PLN to Eur is important.

Lessons:

- A key question when reviewing distributors is whether their product category is structurally growing => it can be very powerful.
- Lower labor cost countries with no export restrictions => potential competitive advantage.

Lessons from Case Studies: ‘Types of Mis-pricings’

- Undiscovered Gems – Small Cap, High-quality often niche businesses, low multiple at start of period, large proportion of the return from multiple expansion.
 - Examples: Amadeus Fire AG, Norbit, Washtec AG, RWS Holdings, AutoPartner SA.
- Undiscounted Capital Allocation – Management were able to deploy excess Free Cash Flow at attractive rates over the period, this was never in anyone’s forecast
 - Examples: Addtech AB, Lagercrantz, Terravest, Constellation Software, Ambu A/S, Boyd Service, Alimentation CT, Schouw.
- Industry Tailwinds – The company benefited from un-expected volume growth and/or was at a valuable point in the value chain with industry tailwinds.
 - Examples: Super Micro Computer (AI Compute power), Sartorius AG (Bio-pharmaceutical processing), NVIDIA, Cancom SE (Managed IT), Interroll Holdings AG (Parcel Logistics / Internet Shopping).
- Outstanding Execution –Typically margin expansion through cost cutting, price enhancement & Working Capital reduction => Improved returns on tangible capital.
 - Ambu A/S, Boyd Service, Kinopolis.
- Geographic Expansion – Solid Core business in one geography and able to export this to a new, often larger geography (typically when it has customers that are global)
 - Mader Group (Global Miners), Alten SA, Cancom SE, Autoneum AG (Global AutoOEMs).

Lessons from Case Studies: Business Model 'types', Bias & People

Several Business model 'types' show up over and over...

- Installed Base Businesses: Washtec, JBT Marel, Constellation Software, Zodiac Aerospace, Lectra SA, Nemetschek SE, Interroll Holdings AG
- Discount Business Models / Scale Economies Shared: Booker, Jet2, Protector, Boyd Service, Fraser Group PLC, Seria Co
- Brands with Pricing Power: Games Workshop, Ambu, Royal Unibrew, Kotobuki Spirits
- Two sided Networks: Distributors, Kobe Bussan
- Franchises: Dominos Pizza, Restaurant Brands NZ.

...And the same businesses often do 3x money in more than one period!

- The first +50% should not (necessarily) turn you off (Anchoring). Examples: Kobe Bussan (45x), Ambu, (20x) Games Workshop (24x), Sartorius (46x), Constellation Software (33x)..

People. All of the Trophy Rainbow Trout reviewed so far had excellent execution & owner minded management who thought like investors (because they were!)...that is one common thread.

Manager Biography

Desmond Kingsford, CFA

Desmond Kingsford is Highwood Value Partner's founder and is registered as The Firm's Portfolio Manager. He holds an MA in Philosophy from Cambridge University, a B.Comm from McGill University in Finance and Math and is a CFA Charterholder.

Prior to founding Highwood Value Partners, Mr. Kingsford was a Senior Analyst and Partner of MSD Partners (Europe) LLP, the European office of MSD Capital LP, the exclusive manager of Michael Dell's personal capital. Mr. Kingsford spent 11 years at MSD as part of the European team, which grew from three people managing \$200mn of capital to a five-person investment team managing the \$1.2bn European Opportunities Fund ("EOF"), an opportunistic, fundamental value fund across equities and credit in Europe. Mr. Kingsford personally reviewed and researched over 200 potential investments for the MSD European Opportunities Fund across the Consumer, Industrials, Business Services, Pharma, Medtech, Energy and Commodities industries in Europe. Prior to MSD, Des was a Vice President on the Consumer team for Putnam Investments from 2002 to 2007, also based in London.

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