MOULTON HARROX

A compelling solution for generating returns on excess cash

Equity investment research and advisory

Oct-22

Moulton Harrox provides a compelling solution for generating returns on excess cash and diversifying investments

1	The corporate cash problem	• The value of excess cash on the balance sheet is declining in real terms • The asset management industry isn’t designed to optimise investor returns
2	The Moulton Harrox solution	• Designed to optimise returns by maximising control and minimising costs • Interests fully aligned with a low cost structure
3	The benefits to you	• Retain full control, flexibility and visibility over your portfolio and risk • No hidden charges or risk of gated funds
4	A defined investing approach	• Aim to maximise risk-adjusted returns rather than benchmark an index • Leverage the advantages of time and rational behaviour
5	Compelling opportunities	• The equity market is currently yielding compelling investment opportunities • Current recommendations are trading at significant discounts to fair value

The corporate cash problem

Excess cash on the balance sheet is a significant drag on corporate returns

1. The value of excess cash on the balance sheet is increasingly declining in real terms with inflation
2. Equities are the only investment capable of consistently generating inflation-beating returns
3. Mutual / hedge funds charge high and obscure fees with little incentive to optimise risk-adjusted returns
4. Clients are busy running their businesses with limited time or resources for optimising cash reserves

The Moulton Harrox solution

A differentiated approach designed to optimise returns by maximising control and minimising costs

1. Moulton Harrox provides equity research, portfolio construction advice and recommended investments
2. You operate your own online broking account, providing low cost access to markets
3. You execute recommended trades, maintaining full visibility and ownership of investments
4. Moulton Harrox charges only a fixed monthly fee, independent of the value of assets invested

The benefits to you

Retain full control, flexibility and visibility over your portfolio, costs and risk

1. You retain full discretion and control over your investments, in your own accounts, at all times
2. Complete transparency over portfolio performance and ongoing investee company monitoring
3. Online broking platforms minimise the costs of investing and provide comprehensive reporting
4. All investment involves risk and the Moulton Harrox solution allows you to keep the returns

A defined approach to equity investing

Leverage behavioural advantages to maximise risk-adjusted returns rather than benchmark an index

1. Belief that the lower the risk, the higher the reward - valuation matters
2. Concentrated portfolio of 15-20 investments at any one time, providing some diversification but exposure only to the most compelling risk/reward ideas
3. Only invest in ‘good’ companies that can be held to compound gains and minimise frictional costs
4. Making ‘simple’ investments and avoiding ‘too difficult’ investments to avoid losses

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Compelling opportunities

Extensive due diligence and financial modelling lead to the calculation of a Thesis Price, which is our view of the intrinsic value per share of a company. We have screened thousands of ideas to identify fundamentally undervalued businesses trading at the highest discounts to intrinsic value.

Selection of current investment recommendations - please see appendices for additional details

Company	Country of listing	Thesis Price premium to last close price*	Investment thesis summary
A	UK	721%	● Global leader with a guaranteed minimum revenue contract and exclusive commercial deals. ● On the verge of hyper-scaling with exceptional senior hires.
B	USA	199%	● Oligopoly operator in a secularly growing industry with rational pricing behaviour. ● Signficant margin improvement opportunities from rationalisation of historic acquisitions.
C	Germany	84%	● A global leader operating local monopoly businesses. ● Long re-investment runway to drive continued profitable growth.
D	UK	141%	● Scale operator in rapidly growing, under-penetrated markets. ● Building a relatively hidden asset that is likely worth the current market value on its own.

*Last close price as at: 19-Oct-22

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Appendices

The Moulton Harrox approach to investing

Moulton Harrox aims to leverage the investor advantages of time and rational behaviour. By focusing on long term investments and margins of safety, we aim to benefit from inefficient short term markets while prioritising the preservation of capital.

Belief that the lower the risk, the higher the reward

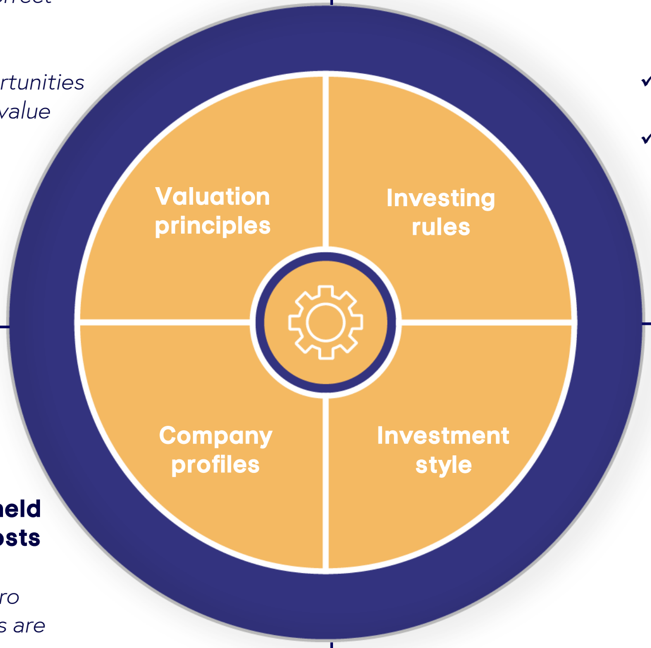
- *Buying 'low' provides the biggest margin of safety (lowest risk) and the largest multiples of return (high reward) when fair value is recognised by the market*
- *The most unpopular stocks provide the most compelling valuations and the lowest risk if your thesis is correct (popularity and volatility are not risk)*

✓ *Identify valuation dis-locations and exploit opportunities in inefficient markets where price doesn't equal value*
✓ *Insistence on margin of safety to probability weighted expected values*
✓ *Preference for downside protection in the form of assets (property, brands etc) and IP*

Concentrated portfolio of 15-20 investments at any one time, providing some diversification but exposure only to the most compelling risk/reward ideas

- *The top 15 ideas are better than the next 15 ideas*
- *Mixture of earlier stage companies and proven cash generating compounders to manage risk*

✓ *No shorting – a 100% upside limit with unlimited downside isn't a game we want to play*
✓ *No leverage – it's really, really hard to go bust if you don't have any debt*



Only invest in 'good' companies that can be held to compound gains and minimise frictional costs

- *Individual companies rather than themes or macro drivers, though thematic tailwinds vs. headwinds are key investment thesis considerations*
- *Likely to be micro and small cap companies that are off-the-radar without analyst coverage or forecasts*

✓ *Some situational / turnaround investments*
✓ *Investments in UK, the EU, USA, Canada and Australia with known governance, reporting standards and rule of law*

Making 'simple' investments

- *An understandable business model with forecasts based on a small number of KPIs*
- *A 'no brainer' value proposition that represents a compelling risk/reward opportunity*
- *Unlikely to lose money over the long term unless the thesis is badly wrong*

Avoiding 'too difficult' investments

- *A complicated business model requiring a multitude of unknowable assumptions where there is a chance to make an average return if you get everything right*

Current investment recommendation – Company A

Global leader on the verge of hyper-scaling

Share price – last 3 years

Key information

Thesis price premium to latest close price	721%
Country of listing	UK
Sector	Technology
EV	<£100m
Management	Founder CEO with single digit holding and significant options
Shareholders	Strategic investor and increasingly institutional base

Financial profile	**LFY**	**CY**	**CY+1**	**CY+2**
Revenue growth	54.7%	238.9%	300.0%	144.8%
Gross margin	36.2%	38.0%	36.0%	34.5%
EBIT margin	nm	nm	nm	19.9%
ROCE	nm	nm	nm	205.1%

Source: company reports and Moulton Harrox estimates
LFY – Last Financial Year. CY – Current Year. ROCE – Return On Capital Employed

Why is it a good business?

- An enormous opportunity in a nascent market that has now reached the tipping point of standardisation and inclusion in client spending plans
- There are more customers utilising their technology than any of their small number of competitors, driven by their historic focus on the quality of their product rather than chasing short term, low margin revenues
- Hugely scalable model, with 'always on' revenue streams now that the technology and partnerships are in place
- Business should now be fully funded to profitability while also able to invest in complementary technology to fuel additional revenue streams

Why does the opportunity exist?

- Poor investor communication has been a significant weight on the share price for the last 3 years, with hyped expectations followed by missed targets
- Executed 2 highly discounted and dilutive equity placings that were, in our view, mis-handled and should not have occurred at the prices they did

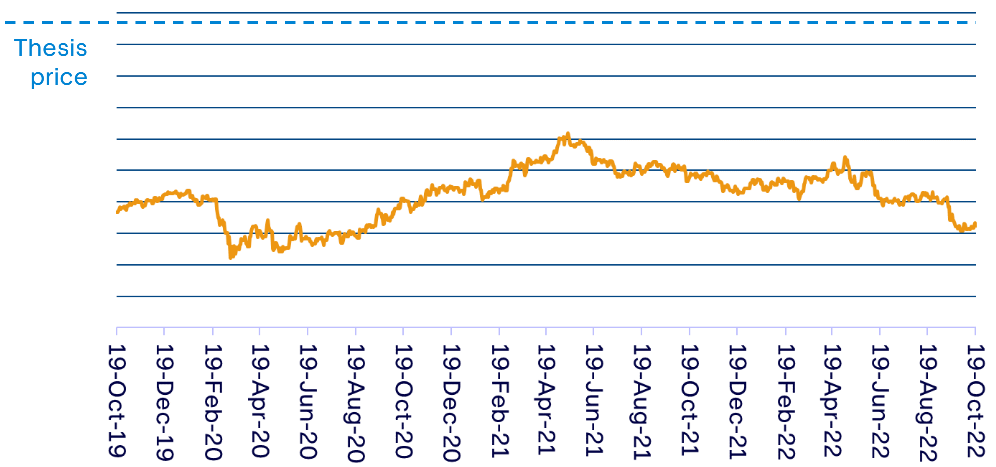
What is the 'no-brainer' value proposition?

- It is difficult to use assumptions conservative enough to produce non-exponential forecasts that scarcely look believable, but the business model does provide frictionless scale as the technology becomes accepted and adopted
- As with all of our investment recommendations the thesis price is based on a discounted cash owner earnings valuation. While we expect the business to breakeven on a monthly basis in CY+1 (2023), current profitability metrics are not available. However, we note that the business is currently trading at less than 2x CY+1 gross profit

Current investment recommendation – Company B

Oligopoly operator in a secularly growing industry

Share price – last 3 years



Key information

Thesis price premium to latest close price	199%
Country of listing	USA
Sector	Manufacturing & distribution
EV	>£15bn
Management	Relatively new CEO with significant operational efficiency experience
Shareholders	Institutional base

Financial profile	**LFY**	**CY**	**CY+1**	**CY+2**
Revenue growth	6.6%	15.8%	5.6%	3.0%
Gross margin	18.3%	18.5%	19.0%	19.5%
EBIT margin	8.2%	9.1%	9.7%	10.2%
ROCE	7.9%	9.3%	10.5%	11.2%

Source: company reports and Moulton Harrox estimates
LFY – Last Financial Year. CY – Current Year. ROCE – Return On Capital Employed

Why is it a good business?

- The business benefits from a number of secular growth drivers:
  - Continuing trend of industrial onshoring (or at least no further offshoring) leading to greater demand in its main US market which has already seen the volume of exports declining in order to meet domestic demand
  - Growing e-commerce demand drivers and Increasingly expected to take share from alternative materials
- The US market is now essentially an oligopoly of the largest 4 players that have consolidated the sector over recent years, acquiring the more price disruptive operators to allow for rational pricing across the industry

Why does the opportunity exist?

- The company's share price has suffered alongside all equities this year with concerns over inflationary cost pressures and fears of a recessionary environment. This is reflective more of macro opinions rather than the company's specific performance
- The sector has historically been highly price competitive and is not an exciting business relative to technology alternatives. We believe that this narrative is beginning to change in light of the equity market valuation corrections, the company's record of cash generation (which we find exciting) and pricing rationality from what is now a structurally improved market

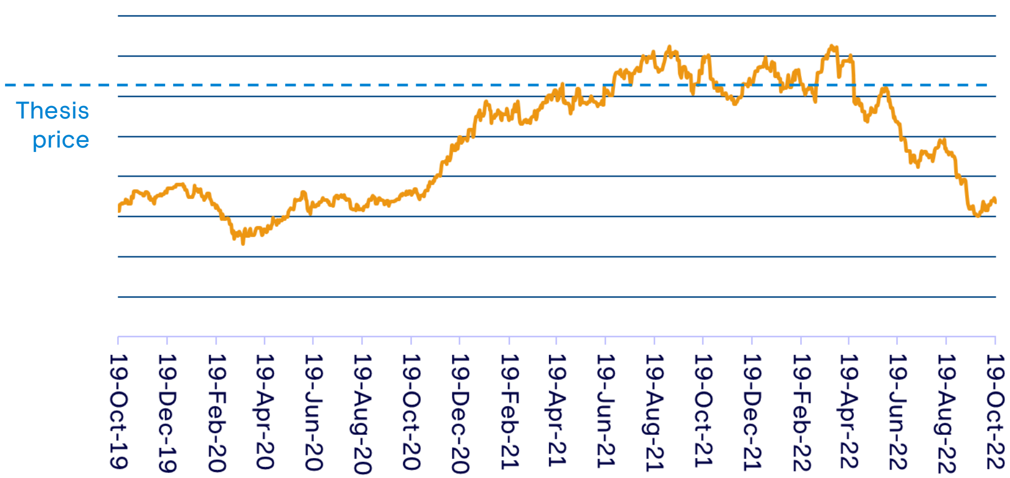
What is the 'no-brainer' value proposition?

- The business is currently trading on a cash owner earnings yield of almost 15% on our CY (2022) estimates. Even our risk price (based on much more conservative assumptions than our thesis price) is >30% above the current share price
- With over US$10bn of depreciated property and tangible assets on the balance sheet, there is substantial downside protection
- The company has announced a plan to buyback c.10% of its shares and, in theory, could buy back 50% from cash flows over the next 3 years at today's price

Current investment recommendation – Company C

A global leader operating local monopoly businesses

Share price – last 3 years



Key information

Thesis price premium to latest close price	84%
Country of listing	Germany
Sector	Industrial processing
EV	>£2bn
Management	CEO is 20+ year veteran
Shareholders	Institutional base

Financial profile	**LFY**	**CY**	**CY+1**	**CY+2**
Revenue growth	36.0%	16.6%	3.2%	2.5%
Gross margin	56.2%	55.0%	56.0%	57.0%
EBIT margin	18.2%	18.8%	19.8%	20.8%
ROCE	13.7%	16.4%	17.7%	19.0%

Source: company reports and Moulton Harrox estimates
LFY – Last Financial Year. CY – Current Year. ROCE – Return On Capital Employed

Why is it a good business?

- The company operates a highly regulated and critical business model that is very difficult to replicate
- Facilities are effectively geographic monopolies as it is uneconomic for competitors to build a new plant where the regional customer volumes don't make two competing facilities viable
- Disciplined medium term growth plan driven by organic growth, international expansion, synergy realisation and hedging to lock in profit upside
- Long term management team with a track record of completing projects on time and on budget, who have been responsible for transforming a European business into a clear global leader with a presence in all 3 key markets. The company has shown strong capital allocation balancing investment in organic growth, opportunistic acquisitions and dividends

Why does the opportunity exist?

- The share price has declined in line with essentially all other equities on macro concerns. There is no company specific reason we can find to explain the decline other than metal prices which, like many commodities, have been falling in 2022 following all time highs around the end of 2021. However, increased volumes and extensive hedging are expected to more than offset this impact

What is the 'no-brainer' value proposition?

- With just a 15x cash owner earnings multiple in the thesis price valuation calculation, which is not an aggressive multiple for such a well run business with effective local monopolies where market dynamics are strongly supportive of continued growth, the thesis price is >80% above the current price

Current investment recommendation – Company D

Scale operator in rapidly growing, under-penetrated markets

Share price – last 3 years

Key information

Thesis price premium to latest close price				141%
Country of listing				UK
Sector				Telecommunications
EV				>£5bn
Management				Newly appointed CEO, promoted from largest operation
Shareholders				Subsidiary of family controlled parent
Financial profile	**LFY**	**CY**	**CY+1**	**CY+2**
Revenue growth	21.2%	11.5%	10.0%	10.0%
Gross margin	na	na	na	na
EBIT margin	33.2%	29.9%	33.5%	34.8%
ROCE	23.8%	24.0%	29.6%	34.1%

Source: company reports and Moulton Harrox estimates
LFY – Last Financial Year. CY – Current Year. ROCE – Return On Capital Employed

Why is it a good business?

- Long track record of double digit revenue growth and margin expansion that is set to continue, driving an increasingly impressive return on capital employed
- One of the largest operators in its multiple markets, providing scale advantages in purchasing, distribution and brand awareness over single country operators
- Building what we believe to be a hugely valuable ancillary platform alongside its core services that faces relatively limited competition given its infrastructure advantages
- The board has proven highly thoughtful with capital allocation, as highlighted by the dramatically improving ROCE. It commenced dividends while reducing leverage to reasonable levels through non-core asset sales, continues to optimise the capital structure, has attracted strategic investment into its ancillary platform with a view to future monetisation of a more valuable asset, all while continuing to invest in its networks to drive double digit revenue growth

Why does the opportunity exist?

- The valuation has fallen along with overall markets in recent months as the business is not immune to inflationary pressures and currency devaluations
- Individual market headwinds have more recently impacted progress on growth and margins, which still continue to progress positively but at marginally slower rates in the short term

What is the 'no-brainer' value proposition?

- We believe that the progress and intrinsic value of the ancillary business is somewhat under the radar and in 2-3 years could be worth the current market value of the entire business on its own. This provides the growing and profitable core services for 'free' after cash flow substantially pays down debt over the same period

The Moulton Harrox solution differs from the asset management industry model

There's a strong rationale for your own controlled equity portfolio

Financial advisers have their place…

- ✓ Diversification and risk management across asset classes
- ✓ Expertise across a variety of investment products
- ✓ Long term financial and tax planning

…but investors have significant advantages over managed funds

- ✓ Behavioural advantage over longer timeframes vs. meeting quarterly benchmarks in order to market a fund
- ✓ Ability to invest in smaller opportunities where returns can be substantially greater
- ✓ Take advantage of illiquidity and short term market sentiment
- ✓ Prepared to look beyond the consensus and benefit from unconventional thinking
- ✓ Lower size of funds under management vs. pooled investments increase ability to generate exceptional returns
- ✓ No manager back office infrastructure to fund through fees

There's a place and rationale for your own investment portfolio…

- ✓ Decide level of equity investment exposure and risk profile
- ✓ Significant outperformance on even a small part of a portfolio can greatly impact the overall gain
- ✓ No risk of gated or suspended funds
- ✓ Low cost, online broking accounts provide easy access to public markets

… to generate returns on excess cash while running a business full-time

- ✓ Need to turn over a lot of rocks to find interesting companies
- ✓ Extensive due diligence required to confirm thesis and view on valuation
- ✓ Ongoing review required to monitor changes in performance vs. thesis

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