

Maintaining Focus

Long-term value investing makes even more sense in a market like today's, says Bernard Horn, who's successfully applied that approach for more than 40 years.

A pioneer among U.S. money managers investing internationally, Polaris Capital's Bernard Horn knows well the result he'd prefer from today's turmoil around global trade: "We would like the end goal to be little to no trade barriers and restrictions," he says. "The Trump Administration may have a different view of that."

Now managing just under \$8 billion in assets, Horn has navigated all types of macro environments since founding Polaris 30 years ago. Over that time the firm's global equity composite has earned a net annualized 9.9%, vs. 8.3% for the MSCI World Index.

With "a lot of things seeming to go right" today for his traditional value approach, he's finding mispriced upside in such diverse areas as cash handling, chocolate, windows, electric utilities and airlines. [See page 2](#)

INVESTOR INSIGHT



Bernard Horn
Polaris Capital Management

Investment Focus: Seeks companies whose stocks for transient reasons trade cheaply relative to their free cash flow assuming "maintenance" capital spending.

Divergent Paths

Working for the NBA's Spurs and Rockets, Adam Wilk's main job was to find undervalued talent. He's applying that expertise now to finding undervalued stocks.

INVESTOR INSIGHT



Adam Wilk
Greystone Capital Management

Investment Focus: Seeks off-the-radar small companies whose futures for various reasons appear much brighter than what is reflected in their current share prices.

After starting his career on the business side of professional sports, Adam Wilk in setting up his own investment firm wanted to set himself apart by focusing on very small companies off the radar of most investment managers. "The reason was very simple," he says. "The fewer the eyeballs, the better the chance of embedded discounts."

Even in the age of the Mag Seven, that approach is working well for Wilk's Greystone Capital, which since December 2019 has earned a net annualized 23.6%, vs. 16.3% for the S&P 500 and 9.1% for the Russell 2000. Investing in only 10 or so positions at a time, he's seeing opportunity today in an eclectic mix of industries, including furniture retail, coal, eyecare, enterprise software and building services. [See page 10](#)

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Investor Insight: Adam Wilk

Greystone Capital's Adam Wilk explains what he's learned from multiple market downturns during his tenure as a portfolio manager, how he sources off-the-radar small and micro-cap ideas, a common reason he finds stocks mispriced, and why he sees unrecognized value in Leon's Furniture, Natural Resource Partners, Kits Eyecare, Sylogist and Limbach.

You've had your share of good and bad markets to invest in since starting your firm in late 2019. Describe how your approach is meant to be right for any given environment.

Adam Wilk: It looks like I'm going to exit my first decade as a seasoned bear-market investor whether I like it or not. For me that just reiterates the importance of having a longer time horizon, which I apply to looking at small companies that even with all the people out there competing for capital and investment returns are simply overlooked. That doesn't mean everything is mispriced, just that the probability is higher that they are. Today the average market cap of my portfolio companies – excluding my longest-held position that has grown into a mid-cap – is about \$815 million. Of my 11 holdings, only two are in the Russell 2000.

There's a general perception that smaller public companies are of lower quality, but I haven't found that to be true. I'm looking for and can consistently find high-quality companies – with predictable unit economics, strong competitive positions, good growth runways, financial resilience and strong management – whose current situations don't reflect what I think the future will be. Very often it's a business in transition, or a smaller company I expect to grow into a much larger one. I'm hoping to develop non-expiring insight, so what's happening on a daily basis is less important.

How do you typically source the types of off-the-radar ideas you favor?

AW: I try to read very widely and will screen around something I'm interested in, but one of the best sources of ideas for me is the maintenance due diligence I'm doing on the companies I own. It might be about another company in the same industry, a

supplier, a customer, or where the CEO I'm speaking with used to work. There aren't that many investors looking for the same types of ideas I do, but I've also tried to develop a network of people who love to talk about businesses and exchange notes on companies, which can give me ideas to pursue.

I often engage on an idea based on the management, either because I know of them from a prior experience or I find them otherwise interesting or compelling. We'll talk later about Kits Eyecare [Toronto: KITS], but a primary reason I started following the company was learning about the founder and CEO, Roger Hardy. He had already successfully built an e-commerce eyewear firm called Coastal Contacts, which he sold to Essilor Group in 2014. In this second act he's improving on everything he did the first time, and as I got deeper into the company I was particularly impressed by the corporate culture and its almost maniacal focus on the customer. I wish I would have pulled the trigger earlier after the company went public in 2021, but we're shareholders now and think the company has long runway for growth.

You mentioned looking at companies in transition. Can you give an example or two where that was an important part of the going-in thesis.

AW: One good example still in the portfolio is Innovative Food Holdings [IVFH], whose main business is operating a specialty food distribution marketplace to connect vendors to a nationwide group of chef customers. It's a tiny company that when I first started looking at it had a market cap of \$50 million and had been poorly run by an overpaid CEO who pursued a number of money-losing pet projects that diverted attention from what was a strong core business.



Adam Wilk

Transferable Skills

After graduating with a degree in sports management from High Point University in 2009, Adam Wilk joined a small agency representing prospective professional basketball players before landing roster-building roles with two NBA teams, the San Antonio Spurs and the Houston Rockets. He describes his Spurs experience in particular in terms familiar to a value investor: "My role was to find undervalued talent," he says. "The idea was to take advantage of inefficiencies and biases that exist in pro sports, mostly by looking for overlooked international players and those at mid-major U.S. schools."

Tiring of the grind, he started contemplating a new career path after being given a book on investing called *Rule #1*, written by a former hedge fund manager named Phil Town. Based on Warren Buffett's famous quote about the two basic rules of investing (Rule #1: Don't lose money. Rule #2: Don't forget Rule #1) the book inspired Wilk to read everything he could by and about Buffett. "As they say, the light bulb just went off," he says. "That was as far as I needed to go to know this was what I wanted to do with my life." After starting out in 2016 managing money for family and friends, he launched Greystone Capital in 2019.

The transition came when Bill Bennett, who was previously the head of e-commerce at Kroger, took over as CEO in early 2023. He cut out a lot of costs and refocused the business just on specialty food distribution. He landed the company's largest ever purchase order in partnering with a large retail chain, and acquired two distribution businesses that enhance and logically expand the company's competitive position. Given all that was going on in the transition it was difficult for the market to pick up on what the future earnings power could be, but as that increasingly becomes evident the stock [trading at a recent \$1.75 per share] has started to reflect that. The shares have doubled since we first bought in but I still believe there's significant room to run.

Another in-transition example would be Bel Fuse [BELFB], a manufacturer of electronic components that go into a wide variety of larger electrical systems used in telecom, aerospace, transportation and consumer-electronics end markets. These are low-cost but high-cost-of-failure products – including things like connectors, cables and transistors – which make established customer relationships quite sticky and recurring.

I had been doing work around the investment implications of increasing electrification and knew of a number of really good bigger businesses in the industry such as Amphenol [APH], TE Connectivity [TEL] and Littelfuse [LFUS]. I thought Bel Fuse could fit that mold, but only got confidence that might happen when the company named Farouq Tuweiq as CFO and he was given free rein to transform the business. (He's now slated to take over as CEO in May.)

In my view, he's done all the right things, such as exiting markets where they weren't making money, revamping the sales effort, fixing the pricing structure and cutting overhead. To bolster their product lineup in the most attractive end markets, they made last September what I believe will prove to be a home-run acquisition, buying 80% of Enercon Technologies, an Israel-based electronics manufacturer, for \$320 million.

Despite considerable evidence that earnings power has increased – I estimate Bel Fuse can earn close to \$145 million in EBITDA by next year, against a current enterprise value of less than \$1.2 billion – the stock [recently trading at \$68.25] trades on a cash-flow basis at roughly half of peer valuations. I think that's far too cheap for a quality business whose margins are now in line with peers and which is generating sustainable top-line growth for the first time in years.

ON PRIMARY RESEARCH:

Most of the time I've found people are happy to take some time out of their day to talk about what they do.

You've said that poring through financial filings and publicly available materials makes up maybe 10% of your research process, with the other 90% focused on primary research. Explain that.

AW: In small companies there's just a higher likelihood you can uncover differentiated insights through primary research. For me that means spending a lot of time with management, but also with competitors, customers, former employees, industry experts and really anyone who can help me truly understand the business and the competitive environment. It's a numbers game, but most of the time I've found people are happy to take some time out of their day to talk about what they do and to share their expertise.

For Sylogist [Toronto: SYZ], for example, which sells software to public-sector and non-profit clients, over a number of months I visited maybe 25 actual and potential customers to really understand how they operated on a day-to-day basis and how their software systems were used and integrated into their workflows. How did they judge the value propositions of the various software vendors they had to choose from? How price sensitive were

they? How hard would it be to switch vendors? That gave me an understanding of the industry and Sylogist's position in it that I couldn't have come close to having by reading the 10-K and listening to earnings transcripts.

I would also mention that I think in small companies you have to place inordinate emphasis on the quality of the management team and on having a favorable company culture. You can really only get at that by talking to a lot of people with informed opinions. All this primary research is labor intensive, but the point of doing it is to find differentiated insights that are not priced into the stock. I want it to be something that sets Greystone apart as a firm.

You tend to hold only around 10 companies at a time. Why so concentrated?

AW: For me it's partly a function of bandwidth – I'm a one-man investment team and I can't understand that many businesses in the depth I need to in order to commit to owning a stock. I know there's an argument to be made, especially in small and micro-caps, that you want to own more companies because of the generally wider range of potential outcomes and how that might impact volatility in share prices. My feeling on that is that I have to know my companies well enough – especially with respect to how they will withstand adverse business outcomes – or I shouldn't own the stock. If being concentrated means higher volatility, I accept that's the price of admission on the way to stronger returns.

Let's talk in more depth about some specific ideas, a number of which we notice are listed in Canada. Is that typical?

AW: It's a bit misleading because two of the companies, while listed in Canada, do almost all of their business in the U.S. (In fact, there's a nice potential catalyst in those uplisting one day to the U.S.) But in general I do think the opportunity set in small and micro-cap Canadian-listed companies is quite appealing right now.

The capital markets are friendly there to small companies, as it costs less to be listed, there's a good investor base for small stocks and there's decent liquidity. I also think there's incremental opportunity for mispricing in the B2B and services business I prefer, which don't get as much attention in Canada as the more-prevalent mining and resources-focused stocks do.

Turning to one fully Canadian domestic business, describe the upside you see in Leon's Furniture [Toronto: LNF].

AW: Leon's started from a single store in southern Ontario in 1909 and is now the largest furniture retailer in Canada, with more than 300 Leon's and The Brick stores generating C\$2.5 billion in annual revenue. While not considered a low-cost retailer, I consider it a functional equivalent of Berkshire Hathaway's Nebraska Furniture Mart, with significant competitive cost and purchasing advantages and industry-leading product selection and customer service.

The first part of the investment case revolves around the core retailing business. Furniture retail is a tough business, increasingly favoring the scale players. Furniture brands themselves have almost disappeared due to outsourced manufacturing, constantly changing consumer tastes and little sustained marketing support. Retailers hold more power and are mostly brand agnostic, swapping out one line for something better as customers demand. The biggest retailers like Leon's hold even better cards, as they leverage scale advantages in purchasing, store footprint, marketing and advertising into market-share gains over time. Leon's controls around 15% of Canada's retail furniture market and I expect that to grow to at least 25% over the next decade as mom and pops – which still make up more than 50% of the market – find it increasingly difficult to compete.

In addition to growth from taking share, the company also has several internal initiatives underway to drive sales, margins and shareholder value. They're optimizing store footprints and square

footage, centralizing the distribution system and growing a high-margin warranty and insurance business. Beyond that they're looking to unlock the considerable underlying value in their portfolio of owned real estate purchased long ago and mostly unencumbered by debt. They've announced a plan to sell in a public offering a large portion of the real estate assets, patterned after similar efforts in the past by Canadian retailers Loblaw Companies and Canadian Tire. They'll only go ahead with that when they consider the market most amenable, but the plan is for that IPO to happen at some point

in 2026. With limited reinvestment needs, I'd expect a material amount of the money raised in that transaction to be paid out to shareholders.

Separate from the real estate that's going to be spun out, one of Leon's distribution centers and its corporate headquarters sit on a 40-acre lot in downtown Toronto. That prime land has been preliminarily approved for redevelopment and Leon's plan is to partner with developers to build 4,000 homes in addition to a new corporate headquarters. I expect a partnership and specifics to be announced on a similar time frame as the real estate offering.

INVESTMENT SNAPSHOT

Leon's Furniture
(Toronto: LNF)

Business: Market-leading furniture retailer in Canada. Stores, under the Leon's and The Brick brands, also sell other home furnishings, appliances and consumer electronics.

Share Information
(@4/29/25, Exchange Rate: \$1 = C\$1.38):

Price	C\$22.45
52-Week Range	C\$20.51 – C\$30.64
Dividend Yield	3.6%
Market Cap	C\$1.53 billion

Financials (TTM):

Revenue	C\$2.50 billion
Operating Profit Margin	7.7%
Net Profit Margin	6.2%

Valuation Metrics

(@4/29/25):

	LNF	S&P 500
P/E (TTM)	10.0	22.1
Forward P/E (Est.)	11.1	20.5

Largest Institutional Owners

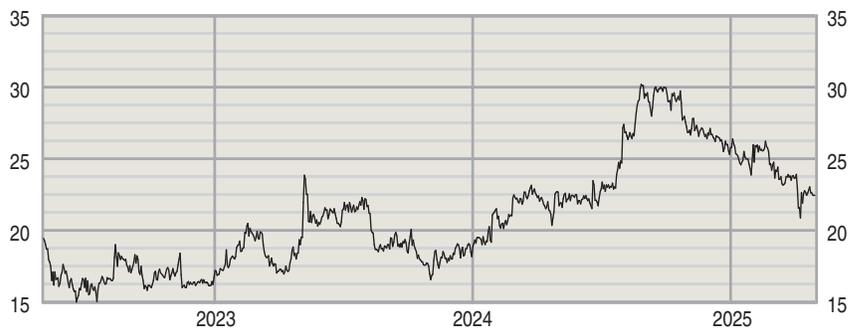
(@12/31/24 or latest filing):

Company	% Owned
Industrielle Alliance	1.0%
Dimensional Fund Adv	0.9%
RBC Global Asset Mgmt	0.9%
QV Investors	0.7%
Beutel, Goodman & Co.	0.6%

Short Interest (as of 4/15/25):

Shares Short/Float	n/a
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LNF PRICE HISTORY



THE BOTTOM LINE

The company is poised to take increasing advantage of its market leadership in Canada's furniture retail market, says Adam Wilk, and is also actively pursuing initiatives to unlock value resident in its owned real estate. He believes the real estate alone is worth the current enterprise value, with the retail business at today's share price available for free.

Sources: S&P Capital IQ, company reports, other publicly available information

How do you see all this unlocking value in the shares, trading recently at around C\$22.50?

AW: Here I'm taking what I consider a Joel Greenblatt approach, that if the downside is well protected, the upside should take care of itself over time. Based on my property-level analysis using comparable cap rates on similar properties and in precedent transactions, I believe the store and distribution real estate is worth C\$1 billion to C\$1.2 billion in value, and that the Toronto property is worth another C\$200-400 million. That pretty much covers the current enterprise value of around C\$1.3 billion.

Then there's the ongoing retail business, which I believe can earn a normalized C\$200 million of free cash flow – a little less on a pro-forma basis, assuming the real-estate IPO – and grow at a mid-single-digit rate. With an advantaged competitive position and smart capital allocation, that business should be able to compound value for a long time. At today's share price I believe I'm paying next to nothing for it.

Is liquidity in the stock an issue here?

AW: The Leon family still controls about 70% of the outstanding shares, so this is a micro-cap stock for float purposes. If that makes it somewhat less visible to others I'm OK with that, and expect that to change for the better as the value here is increasingly realized.

We're a bit surprised to see a coal-related stock like Natural Resource Partners [NRP] in your portfolio. Describe what attracted you to it.

AW: National Resource Partners is a royalty business, leasing to mining companies the mineral rights it owns on 13 million acres of land in the U.S. with large metallurgical and thermal coal reserves. Leases range from five to 40 years in length and pay royalties based on the price per ton of the coal mined, with built-in minimum payments owed regardless of volume.

INVESTMENT SNAPSHOT

Natural Resource Partners
(NYSE: NRP)

Business: Owns and leases mineral rights on 13 million acres of mostly thermal and metallurgical coal reserves in the U.S.; also owns 49% of soda-ash producer Sisecam.

Share Information (@4/29/25):

Price	103.13
52-Week Range	81.74 – 113.04
Dividend Yield	2.9%
Market Cap	\$1.35 billion

Financials (TTM):

Revenue	\$245.0 million
Operating Profit Margin	71.9%
Net Profit Margin	73.7%

Valuation Metrics

(@4/29/25):

	NRP	S&P 500
P/E (TTM)	9.1	22.1
Forward P/E (Est.)	n/a	20.5

Largest Institutional Owners

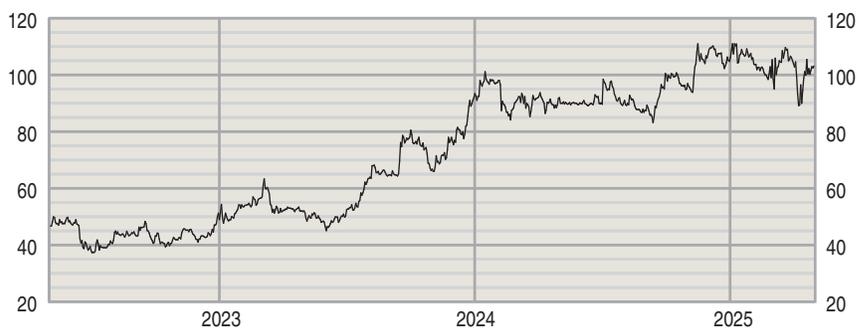
(@12/31/24 or latest filing):

Company	% Owned
Goldman Sachs	12.6%
Morgan Stanley Inv Mgmt	7.5%
JPMorgan Chase	3.5%
UBS Asset Mgmt	1.9%
Citigroup	1.3%

Short Interest (as of 4/15/25):

Shares Short/Float	2.9%
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NRP PRICE HISTORY



THE BOTTOM LINE

The fact that many investors consider coal-related companies off limits is likely contributing to the fact that this one, which earns royalties from miners on its large coal reserves, is so cheaply priced, says Adam Wilk. He expects free cash flow to match the current market cap in less than seven years, with a long stream of royalty revenue still then to come.

Sources: S&P Capital IQ, company reports, other publicly available information

Metallurgical coal, a key commodity used in the production of virgin steel, accounts for roughly 70% of revenues, with thermal coal, used for electricity generation, accounting for the rest. I consider met coal the more favorably priced commodity, with a much longer runway for generating royalty revenue.

While I would never own a coal miner, the royalty business model is very attractive. Lessees shoulder all the expense of mining the coal, maintaining the properties and paying the workforce, which means NRP benefits from higher volumes and revenues when coal prices are high,

and is well protected when coal prices are low. It generates 90% free-cash-flow margins and has over the past 20 years, through a number of coal price environments, never had negative free cash flow.

There are a few reasons a stock like this is available for only 5-6x normalized free cash flow. One is obviously that it's tied to coal, an industry with near zero capital being invested at the company level and that most fund managers avoid like the plague. NRP's master-limited-partnership structure, despite it avoiding the double taxation of corporate income and dividends affecting traditional businesses, also

turns people off as overly complicated to administer, particularly with respect to filing taxes. Finally, the company itself has a rather checkered history. Before the price of coal decreased sharply in 2016, the then CEO went on an acquisition spree to diversify the asset base, took on too much debt to do so, and almost put the company into bankruptcy. This wasn't uncommon in the industry, but avoiding bankruptcy came very much at the expense of shareholders, the type of experience many investors are slow to forget.

With respect to the outlook for thermal and metallurgical coal, you don't have to be a super-bull to find the current negativity for each to be overdone. Although thermal coal only accounts for 20% of the electricity generation in the U.S., down from 50% a few decades ago, it is likely to remain a necessary feedstock for a long time, particularly in developing world markets. The situation is similar for met coal, where global demand has continued to increase in a market where investments in new supply have been few and far between. NRP has 30-plus years of reserves in the ground, supporting what I expect to be a long runway for continued cash-flow generation.

With respect to corporate governance, I don't think that's at all an issue. The company has been highly focused on reducing its outstanding debt and improving the capital structure. The preferred stock and warrants issued in the earlier crisis have been retired and, depending on free-cash-flow assumptions, the remaining term debt on the balance sheet should be paid off within the next 12 to 18 months. Once the debt is gone or close to paid off, I would expect capital returns to shareholders to increase significantly. Insiders own close to 30% of the outstanding shares and are well-aligned with us in wanting to create shareholder value.

How are you looking at valuation here with NRP's shares trading at a recent price of around \$103?

AW: Cash flow will be volatile from year to year depending on coal prices, but just

using the average annual free cash flow of \$200 million over the last 10 years – not always a great period for coal – means the current market cap is paid back in less than seven years. That alone would be an attractive return, and you'll still then have a free option on earnings going forward from there.

Another potentially material free option here is the company's 49% stake in a large soda-ash business called Sisecam Wyoming. This is the leading U.S. producer of soda ash, a key commodity used in the manufacture of glass as well as other products like soaps and detergents. NRP

collects royalties here as well, based on the gross price of the soda ash produced. Those royalties are for cyclical reasons currently somewhat depressed, but they have historically come in at between \$25 to \$40 million annually. This is a very long-term asset, with proven and probable reserves expected to last more than 50 years. I don't believe that cash flow stream is being valued at today's share price.

You mentioned earlier Mr. Hardy and Kits Eyecare, which appears to be a higher-growth type of idea. Explain why you're bullish on its prospects.

INVESTMENT SNAPSHOT

Kits Eyecare

(Toronto: KITS)

Business: Online retailer of eyeglasses, contacts and other eyecare accessories; distinguishes itself competitively by manufacturing its eyeglasses in house and to order.

Share Information

(@4/29/25, Exchange Rate: \$1 = C\$1.38):

Price	C\$11.66
52-Week Range	C\$5.56 – C\$12.50
Dividend Yield	0.0%
Market Cap	C\$372.9 million

Financials (TTM):

Revenue	C\$159.3 million
Operating Profit Margin	1.7%
Net Profit Margin	2.0%

Valuation Metrics

(@4/29/25):

	KITS	S&P 500
P/E (TTM)	129.6	22.1
Forward P/E (Est.)	66.6	20.5

Largest Institutional Owners

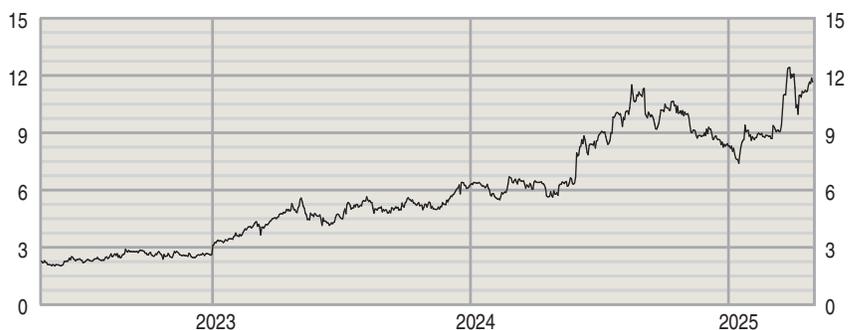
(@12/31/24 or latest filing):

Company	% Owned
Hardy Family Foundation	5.3%
Matco Financial	1.5%
AGF Mgmt	0.5%
Spartan Fund Mgmt	0.5%
Desjardins Global	0.3%

Short Interest (as of 4/15/25):

Shares Short/Float n/a

KITS PRICE HISTORY



THE BOTTOM LINE

"This is more of a growth story," says Adam Wilk, who believes the company from secular industry growth, geographic expansion and market-share gains can sustain 25-30% annual top-line growth for the foreseeable future. If in five years it hits his estimates for sales and EBITDA, with no change in the multiple, the shares would be 4x today's price.

Sources: S&P Capital IQ, company reports, other publicly available information

AW: Kits sells glasses, contacts and related accessories online, providing what I consider a superior value proposition for customers versus traditional eyecare retailers and doctors' offices. It offers discount prices on a full range of products, setting itself apart by actually manufacturing its own eyeglasses in-house. That allows them to better control quality, take cost out of the value chain, and offer expedited delivery in one to three days after orders are placed. Customer satisfaction is high, as are repeat visits – last year two-thirds of total revenues came from already-existing customers. The geographic split is around 70% U.S., 30% Canada.

This is more of a growth story. The company was founded in 2018 and continues to benefit from the secular tailwind of eyecare retail moving online. Pre-Covid, less than 8% of glasses and less than 20% of contacts were sold through e-commerce, while those numbers today are closer to 20% for glasses and over 40% for contacts. They also have significant growth potential from taking share in a market that is still roughly 50% controlled by single-store competitors and optometrist practices.

They've proven to be quite good at what I'd call guerilla marketing. Broad brand recognition is still low, but that's not the case in markets where they're executing their "own this town" strategy, which relies on pop-up shops, mobile optical labs, marketing events, and partnerships with popular social-media influencers to blitz a local or regional market. That's been a cost-effective way to acquire customers, who if they continue to come back and buy more – as they have so far – should generate better-than-average lifetime values and result in significant operating leverage as the business scales. I believe this business can sustain 25-30% annual top-line growth for the foreseeable future.

How do you see that translating into share upside from today's C\$11.65 price?

AW: At 1.5x sales and 22x my estimates for 2025 EBITDA this doesn't scream

headline cheap. But if I'm right about the growth I think that valuation will come to look very cheap over time.

From C\$160 million in 2024, within five years I think Kits can generate C\$500 million in sales and earn 10-15% EBITDA margins. If they reach that scale, assuming the low end of that margin range, the shares without any change in multiple would be roughly 4x today's price. Even at that point the company should still be benefiting from sales continuing to move online and from taking share from less-competitive legacy players. I will talk

about this further, but I've concluded I'm better off only owning companies I could imagine holding for a long time. This is one of those.

You also mentioned enterprise-software provider Sylogist earlier. What do you think the market is missing in it?

AW: This is another example of a company going through a significant transition that I believe the market has been slow to notice. Sylogist serves three primary end markets – non-profits, government and

INVESTMENT SNAPSHOT

Sylogist
(Toronto: SYZ)

Business: Develops, markets and maintains software systems and services used primarily by enterprise users in the non-profit, governmental and education end markets.

Share Information
(@4/29/25, Exchange Rate: \$1 = C\$1.38):

Price	C\$8.42
52-Week Range	C\$6.33 – C\$11.60
Dividend Yield	0.5%
Market Cap	C\$196.9 million

Financials (TTM):

Revenue	C\$65.6 million
Operating Profit Margin	5.0%
Net Profit Margin	(-1.1%)

Valuation Metrics
(@4/29/25):

	SYZ	S&P 500
P/E (TTM)	n/a	22.1
Forward P/E (Est.)	25.0	20.5

Largest Institutional Owners
(@12/31/24 or latest filing):

Company	% Owned
PenderFund Capital	10.9%
Seymour Inv Mgmt	10.9%
Pembroke Mgmt	2.5%
Franklin Resources	1.5%
Desjardins Global	1.3%

Short Interest (as of 4/15/25):

Shares Short/Float	n/a
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SYZ PRICE HISTORY

THE BOTTOM LINE

While nearly every key business metric is moving in the right direction after a strategic and operating overhaul of the company, Adam Wilk argues the market has been slow to recognize that. If sales and profits grow by 30% annually over the next three years as he expects, he thinks there's further share upside as the valuation re-rates higher as well.

Sources: S&P Capital IQ, company reports, other publicly available information

education – with a range of software solutions for things like customer relationship management, enterprise resource planning, fundraising, education administration and payments processing. For a long time the company was more or less stagnant, milked for margin and paying out big dividends rather than reinvesting in the business.

That started to change in 2020 when Bill Wood was named CEO. He was one of the founders of Blackbaud, a director competitor of Sylogist, and also served consecutive terms as the CEO of two different software businesses that ended up being sold, one to Constellation Software and the other to a private equity firm. He in relatively short order after taking over cut the dividend to free up cash and announced a strategic overhaul focused on reinvigorating growth. That involved investing in product development, sales and marketing, while also more aggressively pursuing M&A to deepen and broaden the product suite.

The result of these efforts under new leadership is that nearly every key business metric is moving in the right direction. Win rates are up on projects up for bid. They're adding new customers. They're growing channel-partner relationships, leading to higher gross margins and, ultimately, higher free cash flow. They're growing recurring subscription-as-a-service [SaaS] revenue, which now accounts for more than 40% of total sales, while overall revenues since 2021 have grown at a 17% annual rate. Customer retention has always been high and net revenue retention has been close to 110% for the past few quarters.

The shares at a recent C\$8.40 are pretty much where they were three years ago. What do you think they're more reasonably worth?

AW: If the company continues at its current pace, I estimate it can earn C\$30-35 million in EBITDA in two to three years, against what today is a C\$210 million enterprise value. If I'm right about the earn-

ings power, a company growing its top-line at an estimated 30% annual rate over the next three years, with recession-resistant and largely recurring revenues and 25% EBITDA margins should not be trading at the current 13x forward EV/EBITDA multiple. Comparable peers trade at 20x EBITDA or more, so on top of the high earnings growth there's real upside from a re-rating as well.

I have been surprised the market has been so slow to recognize how much this

ON UNCERTAINTY:

It's important in these types of markets to slow down, don't watch a lot of news, and just study really good businesses.

business has improved. That could just be because the public float is so small, management is non-promotional and there's very little analyst coverage. But I'm very excited about the company's future so I'm okay with waiting out periods like this. If what I think here is a material disconnect with reality persists, I would not at all be surprised if Sylogist found itself on the receiving end of an acquisition offer before too long.

Could the government cost-cutting efforts in the U.S. potentially be weighing on the shares?

AW: Management did call some of this out on the latest earnings call. There has been zero current impact, but broader cuts may end up affecting a small portion of their non-governmental business. DOGE appears to be targeting larger enterprise-level budgets within the federal government, a smaller portion of Sylogist's revenue base. The company also can renegotiate if necessary, but say that so far renewals are proceeding as planned with no calls to renegotiate. The software is embedded in their customers' organizations – if budgets

get cut, I would imagine it's employees who go first.

From software to construction services, what's your investment case for Limbach Holdings [LMB]?

AW: Limbach considers itself a building-systems solutions provider, helping clients design, install, manage and maintain plumbing, HVAC, mechanical and electrical systems. It does that through two operating segments, serving either general contractors or working directly with building owners.

The big transition here is that the company has de-emphasized its more commoditized general-contractor business and has invested heavily in building out the more lucrative owner-direct operation. That business often involves critical shorter-duration projects that produce higher cash flows – such as overhauling or installing the air-conditioning system for a hospital, for example – where Limbach has more leeway in crafting what it considers the most effective solution. That helps develop relationships with building owners that lead to both recurring service and maintenance business and follow-on systems projects. While the revenue mix in 2022 was 70/30 general contractor to owner direct, that will flip this year on the way toward management's goal for owner direct eventually to be at least 80% of the business. I think that structurally improves the quality, margin profile and growth trajectory of the company.

There's also considerable opportunity here for inorganic growth. This is still a fragmented industry and it's one where you can buy a business for 4-5x EBITDA and very quickly improve its economics through improved purchasing power and expanding its product offering. Last year Limbach spent \$38 million to buy two well-established building-systems solutions businesses, Kent Island Mechanical and Consolidated Mechanical, for an average multiple of 3.75x EV/EBITDA. Those two together should add somewhere between \$8 million and \$10 million

INVESTMENT SNAPSHOT

Limbach Holdings

(Nasdaq: LMB)

Business: Building-systems solutions provider, working with clients to design, install, manage and maintain their plumbing, HVAC, mechanical and electrical systems.

Share Information (@4/29/25):

Price	92.53
52-Week Range	43.78 – 107.00
Dividend Yield	0.0%
Market Cap	\$1.08 billion

Financials (TTM):

Revenue	\$518.8 million
Operating Profit Margin	8.2%
Net Profit Margin	6.0%

Valuation Metrics

(@4/29/25):

	LMB	S&P 500
P/E (TTM)	36.0	22.1
Forward P/E (Est.)	28.5	20.5

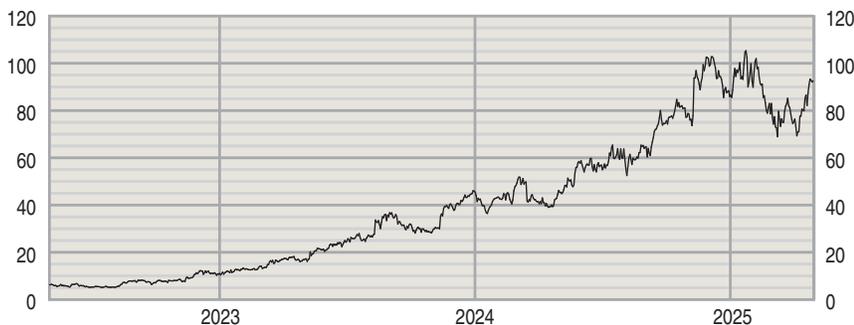
Largest Institutional Owners

(@12/31/24 or latest filing):

Company	% Owned
BlackRock	8.4%
Vanguard Group	5.3%
Neumeier Poma Inv	4.1%
Wasatch Advisors	3.3%
Renaissance Technologies	3.2%

Short Interest (as of 4/15/25):

Shares Short/Float	5.5%
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LMB PRICE HISTORY**THE BOTTOM LINE**

Adam Wilk believes the company's transition away from working with general contractors and toward working more directly with building owners has structurally improved the margin and growth profiles of the business. Based on his earnings and valuation estimates five to six years out, he believes the shares can roughly double from their current price.

Sources: S&P Capital IQ, company reports, other publicly available information

in EBITDA to the company just this year. These types of deals are likely to be a consistent source of incremental growth for years to come.

At a recent \$92.50, how inexpensive do you consider the shares?

AW: Looking out five to six years, I estimate revenues from both organic and inorganic growth can hit \$900 million – up from just under \$520 million last year – and that EBITDA will double from around \$70 million today to \$135 million. If I as-

sume a market-level 15x EBITDA, which would not be unreasonable for a nicely growing business with a net-cash balance sheet and a lot of recurring revenue, that would result in a share price of at least \$175. This is a much stronger, durable and faster-growing business than it was a few years ago. If that dynamic continues to play out as it has, the market should eventually recognize that.

Describe your recent sale of industrial-components manufacturer NN, Inc. [NNBR] and the thought process behind.

AW: I've done quite a fair amount of reflection on past portfolio mistakes and successes and came to the realization that I am better off only holding higher-quality businesses that I could imagine holding well beyond my typical three-year time horizon.

That's the primary reason I sold my position in NN, Inc., which I had only purchased a few months before. The company makes plastic and metal components for industrial, electronics and medical end markets, and while I thought there was an interesting turnaround story under new leadership, I concluded this just wasn't a very good business, without a lot of pricing power, overly exposed to auto production, and threatened by changing tariffs. It was something where I was more focused on hoping it would get to my target price and then I could get out. When that's my mindset – that cheapness is the primary reason to own it and when that changes I'm selling – I've been less successful than when I'm buying something at a bargain price but also could imagine holding it as the business compounds value over a long period of time.

Do you have any advice on processing today's arguably more uncertain than usual market?

AW: I said earlier I've had more experience with these types of markets than I'd like, but I've found that it's particularly important in them to slow down, don't watch a lot of news, and just study really good businesses you can imagine owning for a long time.

I would say, however, that in this case there is a greater-than-zero chance that the global economic order could fundamentally change going forward. It's very difficult to judge the resulting effects, but I am starting to think about positioning the portfolio even more to businesses that are the least exposed to potentially negative impacts of that change. I don't think it's the right time to rush into anything, but as always, it's the right time to prepare for anything that can happen. **VII**