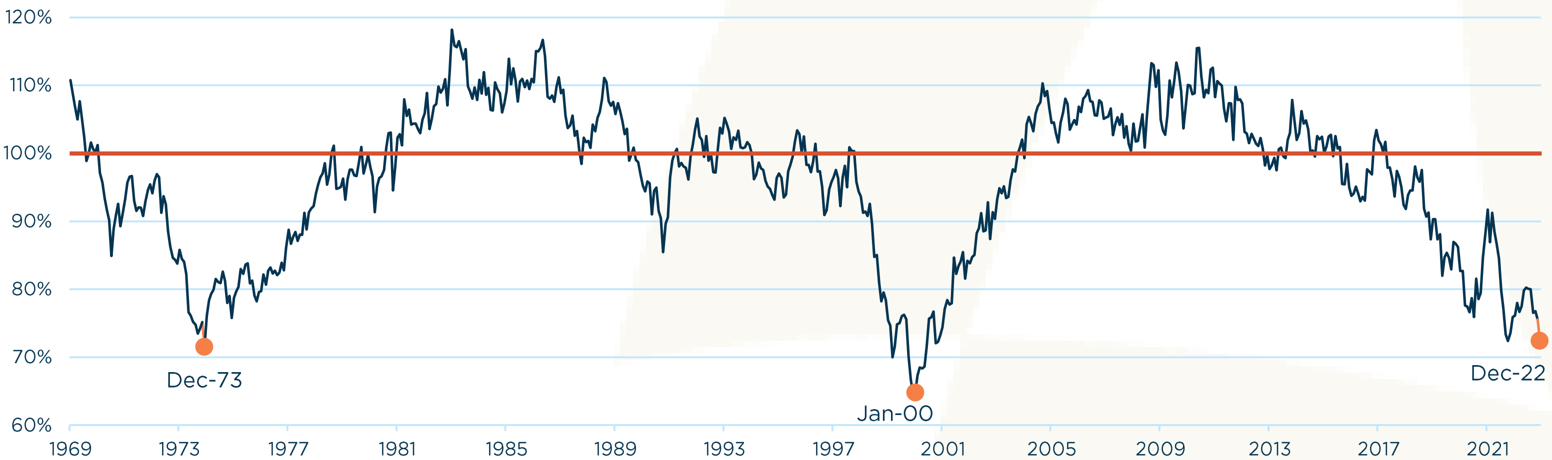
The London Company

A Time for Quality in Small Caps

The Good News

Looking back 50+ years, valuations of Small Cap stocks relative to Large Caps are historically attractive and at levels not seen since early 2000.

Small Cap / Large Cap Relative Valuation
Median LTM P/E Russell 2000/S&P 500 (Only Profitable Companies)



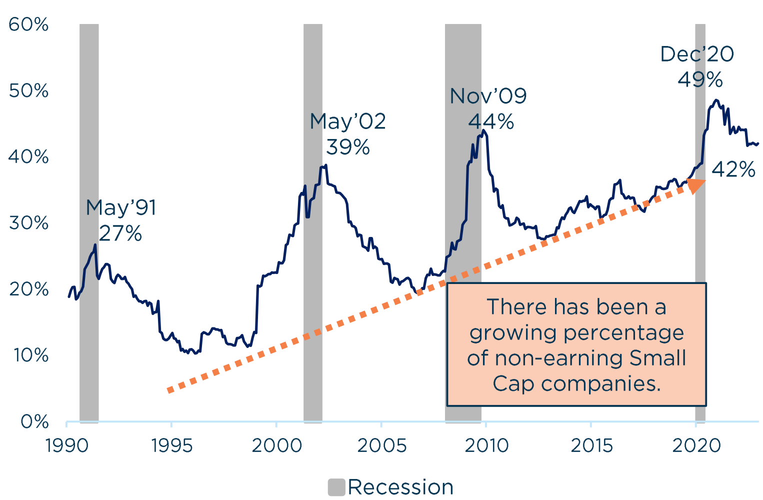
Source: Furey Research Partners

Significant Challenges & Key Considerations

Quality has been deteriorating for years

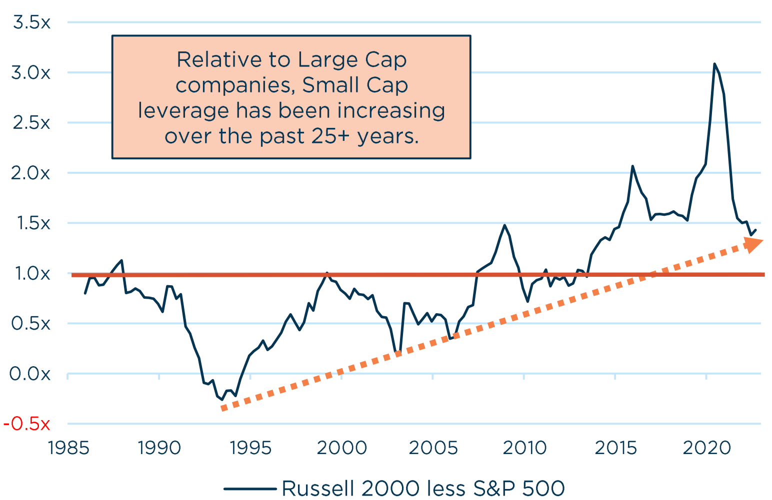
- The percentage of Russell 2000 companies with no earnings has risen significantly over the last decade.
- Additionally, quality has deteriorated, as leverage ratios have been increasing.

Percent of Russell 2000 Non-Earners
(Based on Companies with Available Data)



Source: Strategas

Leverage Ratio Spread
Small Caps Less Large (ex. Financials)



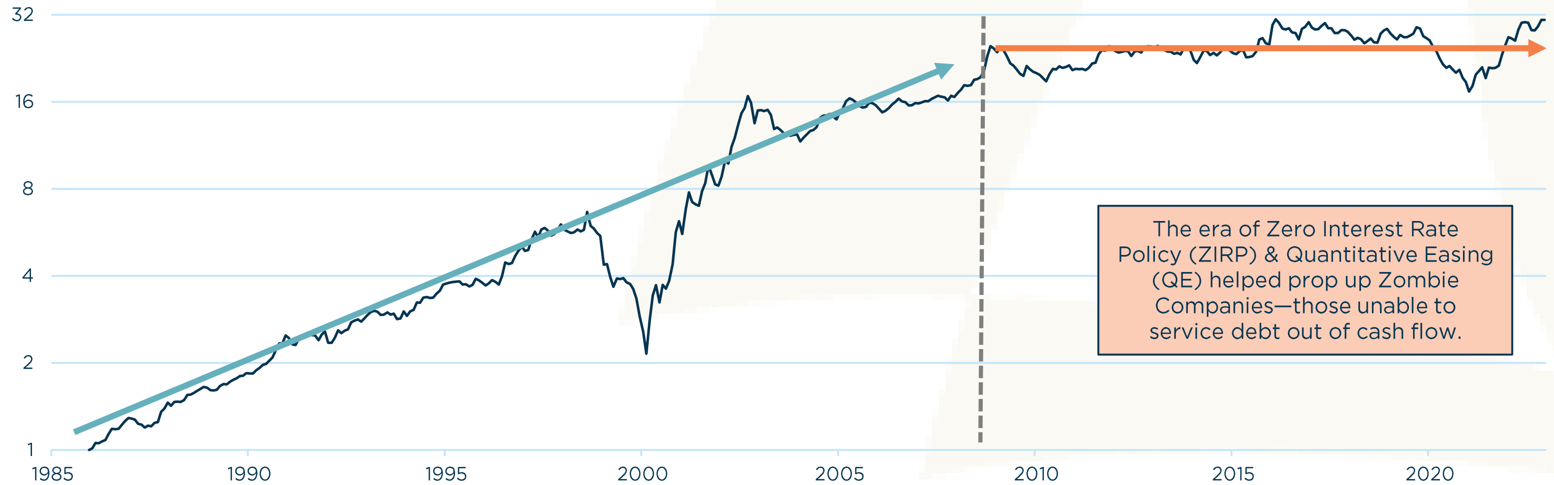
Source: Furey Research Partners.
The leverage ratio represents Net Debt/EBITDA.

Cost of Capital in Perspective

Historical Influence

For the past 10+ years, abundant access to cheap debt has helped prop up an array of non-earning, low-quality small-cap companies—zombies, if you wish—and largely eliminated any performance differential between such companies and their high-quality counterparts. That may be set to change.

Russell 2000: Profitable / Unprofitable Relative Performance Index
(Log Scale)

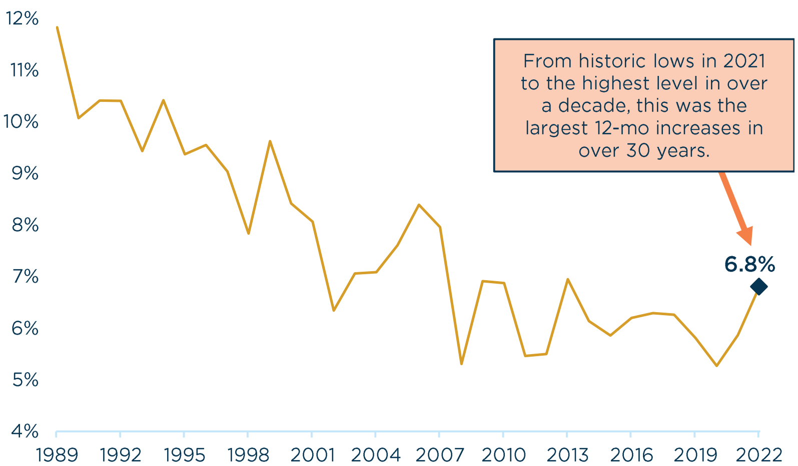


Source: Furey Research Partners

Implications Moving Forward

With the decade of abnormally suppressed interest rates over, the cost of capital is on the rise across the cap spectrum, and nearly 50% of S&P 1500 debt matures in the next five years when refinancing will be much more expensive.

Russell 2000 Weighted Average Cost of Capital
(WACC)



Source: Furey Research Partners

The impact of higher financing costs on low-quality companies with limited earnings could be severe.

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Why The London Company Small Cap Portfolio?

Looking Into the Next Decade

Should the next decade more closely resemble a period of a normalization in interest rates and historical volatility among small caps, a higher quality focus could become increasingly important, as quality among Small Caps has eroded over the past decade.

- Going forward, as the Fed normalizes policy, a higher cost of capital environment will likely shape the contours of the investment landscape for years to come.
    - This comes at a time when quality among Small Cap companies has eroded over the past decade.
- The last time relative valuations were as attractive (early 2000) and the interest rate environment was more normalized (a period much like the one we may be entering), The London Company's Small Cap portfolio generated meaningful excess returns and substantially lower levels of volatility over the ensuing decade.

Small Cap vs Russell 2000 Peer Group Ranking
October 1999 – September 2009

	Return	Standard Deviation	Sharpe Ratio	Beta v. R2000	Alpha v. R2000	Max Drawdown	Up Market Capture	Down Market Capture
TLC Small Cap (Net)	14.0%	16.6	0.66	0.52	11.4	-43.9%	70.0%	48.7%
Russell 2000	4.9%	21.6	0.09	1.0	-	-52.9%	-	-
Peer Group Ranking	1	95	1	100	1	6	94	1

Source: eVestment; Peer ranking based on eVestment US Small Cap Core Equity Universe

We believe our Small Cap portfolio is well positioned to capitalize on attractive relative valuations while avoiding the pitfalls associated with low-quality Small Cap companies.

- Companies with sustainably high and improving returns on capital provide downside protection and have outperformed over the long-term
- Attributes like a strong balance sheet and the ability to self-finance operations are poised to stand out as tangible competitive advantages in a higher cost-of-capital environment.
- Pricing power allows companies to pass through inflationary costs.

Small Cap's Quality Metrics
As of 12/31/2022

	Higher Returns on Capital	Stronger Balance Sheets	Attractive Valuation
	Pre-tax ROIC	Net Debt/ EBITDA	Ent. Value/EBITDA
Small Cap Portfolio	16.9%	1.6x	11.9x
Russell 2000	5.7%	3.2x	12.2x

Source: Factset

Past performance should not be taken as a guarantee of future results.

A Long-Term Quality Value Approach to Small Cap Investing

1 High-Quality Companies

100% Bottom-Up Approach to Find Quality, Sustainable Businesses with durable competitive advantages, consistently high and improving returns on capital & cash flow

2 Balance Sheet Optimization

A Novel Approach to Valuation that assesses strength & flexibility of the balance sheet to create a more concrete margin of safety

3 Focused Portfolio Construction

Solving the Problem of Over-Diversification by targeting 25-35 high-conviction, long-term holdings resulting in high active share and low turnover

4 Sell Discipline

Help Avoid Large Losses to Maximize Return by selling when fundamentals deteriorate and not averaging down, reinforced by a quantitative soft stop-loss

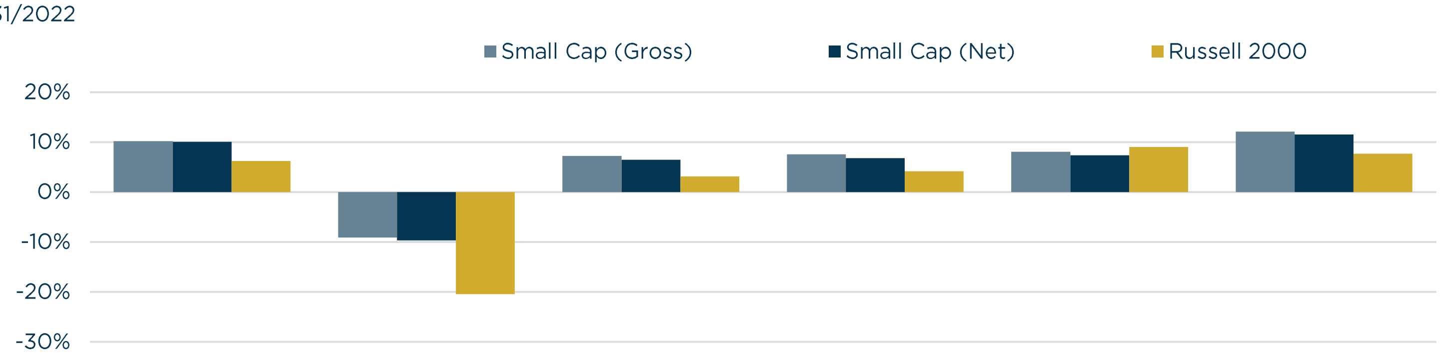
Minimizing Risk:

- Bottom-Up Search for High Quality
- Focus on the Balance Sheet

Maximizing Return:

- Avoiding Over-Diversification
- Help Prevent Large Losses

Annualized Returns (Since Inception 9/30/1999)
As of 12/31/2022



	QTD	1Y	3Y	5Y	10Y	ITD
Small Cap (Gross)	10.2%	-9.1%	7.2%	7.6%	8.1%	12.1%
Small Cap (Net)	10.0%	-9.7%	6.5%	6.8%	7.3%	11.6%
Russell 2000	6.2%	-20.4%	3.1%	4.1%	9.0%	7.7%

Performance results shown should, under no circumstances, be construed as an indication of future performance.
All are encouraged to read and understand the disclosure notes found on the last page.

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