Q4 2022

Hidden Value Stocks

SMALL CAPS WITH LITTLE OR NO COVERAGE

from Value Walk

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INTRODUCTION

CONTENTS

Welcome to the December 2022 (Q4) issue of Hidden Value Stocks.

In the first half of this issue, we have our usual updates from funds previously profiled in Hidden Value Stocks. These include an exciting idea from GrizzlyRock Capital, which appears deeply undervalued and offers a dividend yield of 8% for investors buying today.

In the second half of the issue, there's an interview with Jeff Cherkin, the Founder & Chief Investment Officer of Tourlite Capital Management, LP.

Tourlite is the first long/short fund featured in Hidden Value Stocks. The fund runs a low net strategy, which has helped it outperform this year.

The fund has returned 1.6% since inception in April 2022, compared to a -20.2% decline for the S&P 500.

We hope you enjoy this issue of Hidden Value Stocks, and if you have any questions or comments, please feel free to contact us at support@hiddenvaluestocks.com.

Sincerely,

Rupert Hargreaves &
Jacob Wolinsky

McIntyre Partnerships

McIntyre Partnerships, and its founder, Chris McIntyre, were featured in the December 2018 issue of Hidden Value Stocks.

Over the past four years, the fund has outperformed its benchmark substantially by investing in under-the-radar, high-quality small-cap stocks.

McIntyre has returned 14% per annum gross since its inception at the beginning of 2017 compared to 3.4% for its benchmark, the Russell 2000 Value index.

According to its latest figures, the fund was down -15.7% for the year to the end of the third quarter of 2022 compared to -21.1% for its benchmark.

In Chris McIntyre's latest letter to partners, the fund manager highlighted a new idea to investors. This company was hit by the pandemic but is now bouncing back.

Here's the condensed version of the thesis:

"OneSpaWorld Holdings Limited (OSW) provides spa services on cruise ships and has been an investment since 2020, originally as part of our Covid Recovery basket. In addition to benefitting from the continuing recovery of global cruise travel, OSW is an exceptionally dominant niche business with a strong growth outlook that should compound in value over time. OSW is a quasi-monopoly with over 90% share of the cruise spa market...Niche businesses models like OSW that are too small for customers to pushback while too large for competitors to gain share are some of my favorite long-term investments.

The growth algorithm for OSW is relatively simple. Pre-Covid, cruise line passengers grew at a consistent 6-7% rate for several decades. Cruising has historically gained share versus on-land vacations, as cruises are typically 20-30% less expensive. Further, OSW typically outperforms overall passenger growth as OSW has added higher ASP services, such as Botox, and newer cruise ships have larger spa facilities. The Covid downturn resulted in some newbuild cruise delays, and there may be an overhang of some former cruisers still hesitant to vacation, but I believe OSW is likely to achieve its historical 7-10% topline growth rate within a few years.

Importantly, outside of Covid, OSW has shown minimal cyclicality during recessions. Cruise lines are highly incentivized to fill their ships given the low incremental marginal cost per passenger. As a result, cruise ships are almost always operated at max capacity, even if the cruise lines must resort to discounting. While this brings on board a slightly different type of customer, OSW has historically operated well and kept ASP and attachment rates steady in downturns. During the 2009 recession, OSW saw only a 10% decline in sales and EBITDA declined less than that.

Assuming cruising returns to full capacity by YE2023 and applying OSW's historical 10-11% EBITDA margin, I believe OSW should earn $70-$100MM in 2024 EBITDA, which yields $0.75-$1.10 in 2024 FCF/sh. Of note, OSW pays almost no taxes, as its business is conducted on international waters, and has almost no capex, as the cruise lines pay for the spas. Applying a 15-20x multiple, which I believe may prove conservative, yields $11-$22 per share."

GrizzlyRock

Back in July 2017, GrizzlyRock Capital pitched Resource Capital and Vishay Precision Group as the firm's two favorite undervalued small caps.

Both have produced positive returns over the past five years, but Vishay Precision is the standout performer. The stock more than doubled between July 2017 and August 2018.

Over the past five years and 10 years, the stock has returned 8.6% and 11.7% annualized, respectively.

One of the fund's latest ideas is Ardagh Metal Packaging (NASDAQ: AMBP), a company that listed publicly via a SPAC and has since struggled to gain investor attention. GrizzlyRock believes the market isn't giving the business the attention it deserves:

"Ardagh Metal Packaging Corp. (NASDAQ:AMBP) is the #2 or #3 producer of metal beverage cans in North America, Europe, and Brazil. The business was created when legacy glass manufacturer Ardagh Group (privately held) purchased a consortium of high-quality assets being forcibly divested during the 2016 Ball Corp and Rexam merger. Managed by reputable industry veteran Oliver Graham, Ardagh Metal listed publicly in 2021 via SPAC to provide growth capital for the current growth cycle.
...
Not only economically stable, demand for the simple beverage can is surging due to aluminum's sustainable attributes. According to Wall Street Research, 75% of all aluminum ever produced remains in use. Aluminum cans are infinitely recyclable which achieves many CPG firm's circularity goals, have the highest recycling rate of any beverage packaging substrate, and include (by far) the highest amount of recycled content.

This supply-demand imbalance is so severe that bottlers are importing billions of cans into the US and Europe despite incurring the significant cost of "shipping air" (moving empty cans around the globe). In response to growing demand, the industry is adding a tremendous amount of capacity.
...
Ardagh is now onshoring supply to meet demand in each geography they serve. In return for this capacity, CPG customers are signing 4 to 5 year contracts (historically contract norm was 3 years) at terms which provide ~20% unlevered IRRs for the can producer. With industry standard financial leverage, return on equity capital is far higher.

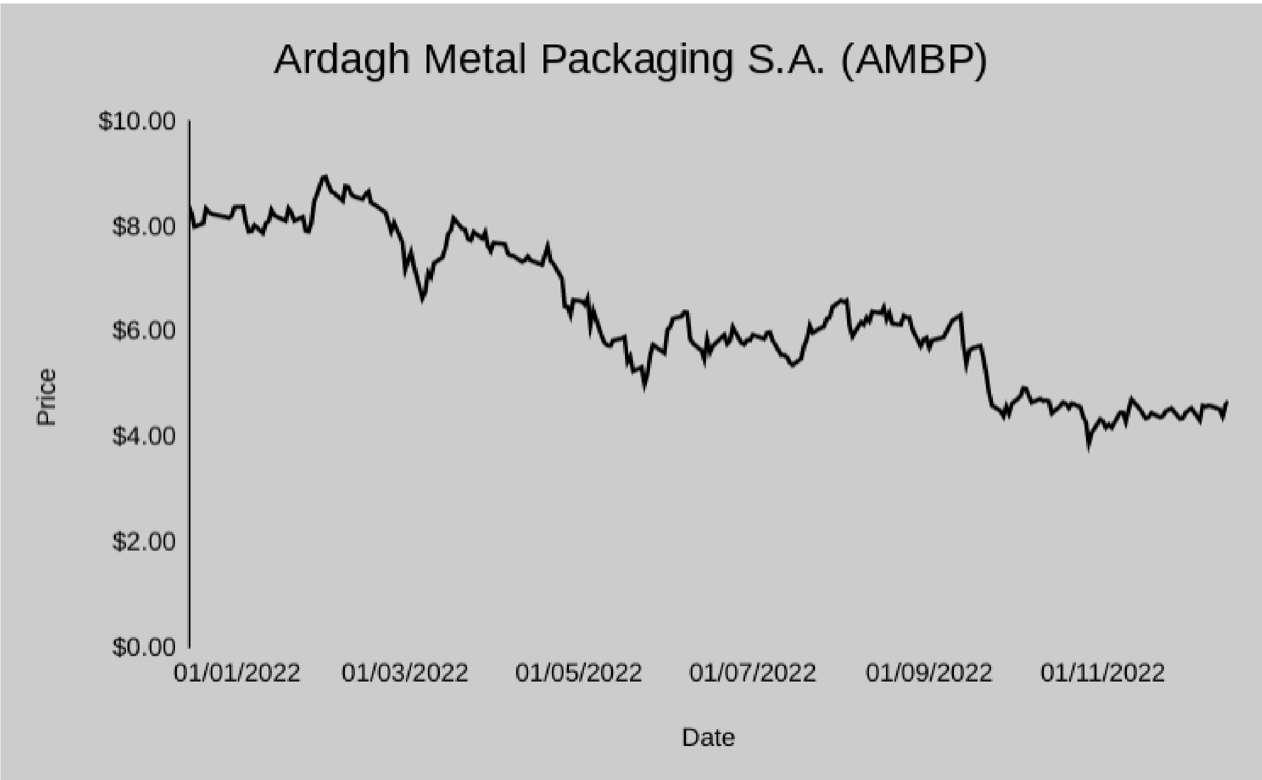
The bear case is that during the current rush to expand capacity, the players are going to overbuild. This would crush historically exceptional unit economics as firms would be forced to lower price to fill unused capacity.

...

Despite the rapid growth, each beverage can producer has also delayed announced expansion and/or shuttered high-cost assets. Just this year, Ball Corporation announced North American facility closures and Ardagh has quietly pushed back a greenfield expansion plan in Phoenix, Arizona by about a year -evidence that the industry remains rational during this period of significant growth.

...

To assess via free cash flow, EBITDA of ~$954 million would generate ~$600 million of free cash flow after interest, taxes, and maintenance CapEx. Valuing these earnings at a 9% yield would imply shares are worth $11.2 (131% return). Using an 8% yield shares would be worth $12.6 for a 159% return. These returns are prior to the $0.40 annual dividend which adds 8.3% per annum at the current price."



Rowan Street

In the September 2019 issue of Hidden Value Stocks, Rowan Street Capital pitched Box Inc and Under Armour.

Rowan's Box Inc pitch proved to be incredibly well-timed. The company reported a surge in business during the global pandemic, and the stock took off. Over the past three years, shares in the cloud storage provider have returned 22.4% per annum.

The fund has now directed its attention to Facebook's parent company Meta. It believes the market's view of the company's spending and growth plans is far too short-term focused, and it's failing to consider the group's long-term potential and the skill of CEO Mark Zuckerberg.

Here's the condensed version of Rowan's recently published thesis:

"**Most investors don't care about the next 10 years, they cannot see past the next 6-12 months, at best. They are quick to judge and critique over short-term results, especially when stock is dropping at such a rapid pace. They take what they can see and measure, which is the latest quarterly results and project them into the future, often ignoring many intangible variables that could be a major value driver for the company over a longer investment horizon.**

...

As a CEO of Facebook, Mark Zuckerberg oversaw a staggering growth in revenues from $3.7 billion in 2011 to $118 billion in 2021 (that's a compound annual growth rate of 41%). Earnings per share (EPS) have also grown 41% per annum from $0.43 to $13.77 over the same time period. Free cash flow per share has increased 42% per annum from $0.40 to $13.68. Gross margins for this business have been 80%+ since 2014 and operating margins have been 40%+ since 2014. How many companies in the world do you know that can put up these kinda numbers? You can count them on one hand...

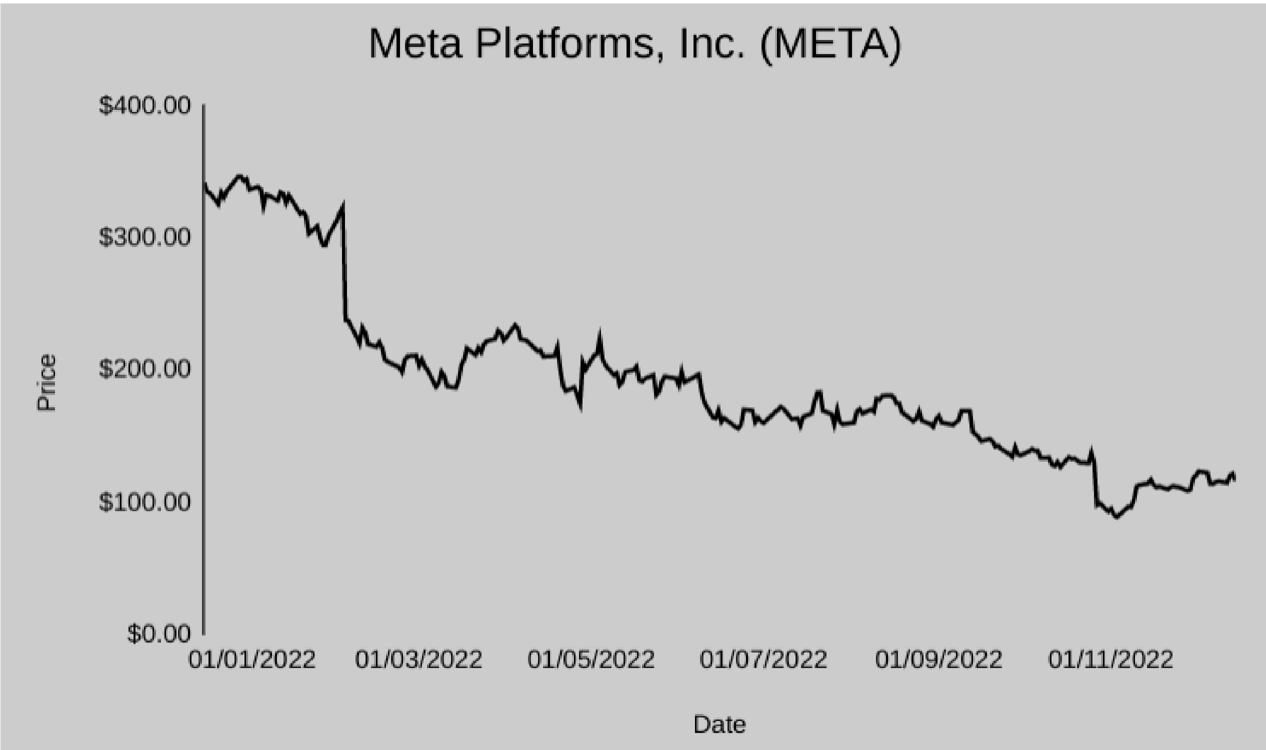
...

In our opinion, all Wall Street is currently focused on is the flattening of near-term revenues due to economic impact on digital downturn and a dramatic increase in expenses from $71 billion in 2021 to an estimated ~$99 billion in 2023, which will cause a drop in operating profits from $46.8 billion in 2021 to our estimate of $28 billion in 2023 (please note that even then, their operating margins are still expected to be above 20%). Combine that with a dramatic increase in capital expenditures from $18.6 billion in 2021 to estimated $36.5 billion in 2023 and we have the herd selling and asking questions later.

The losses for Reality Labs in the past 12 months have been substantial amounting to $12.7 billion. However, when we compare it against the very profitable core business (Family of Apps) and its operating profits of $48 billion, which by the way enjoyed operating margins north of 40% before they fell to 34% in the recent quarter, it could be argued that these investments are sustainable and Zuck is not betting the house as the media loves to portray. We do agree that current investments are staggering and have a very uncertain future payoff profile, which makes the investment community uneasy. At the same time, we truly believe that the company should be making these important investments, which is the future of communication. We stand by the “man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly.

Meta is estimated to make close to $120 billion in revenues this year. Gross profits are still around 80%. The core Family of Apps business generated $48 billion in operating profits over the past 12 months, and the entire market cap is currently $240 billion (5x core operating profits). Free cash flow over the past 12 months netted at $26 billion, even after the heavy capital expenditures we described above.

Since 2017, Meta had invested $210 billion into R&D and Capex — close to the current market cap (please refer to the chart above). In 2022 alone, they are investing $65 billion into R&D and Capex (in comparison, Apple is doing about half of that). Is Zuck just burning through piles of cash? Given his incredible track record, his unique ability to see where the world and technology is headed over the next 10-15 years and to execute against his vision, we would not bet against him."



JEFFREY CHERKIN, FOUNDER & CHIEF INVESTMENT OFFICER OF TOURLITE CAPITAL MANAGEMENT, LP

Could you give us a bit of background on Tourlite and the firm's history?

First off, thank you for reaching out. We began investing in April 2022. Before launching Tourlite, I spent a year at a value-focused long/short equity fund and then almost three years at Spruce Point focused on short selling.

My goal for Tourlite is to combine these investment frameworks into a traditional long/short strategy to generate returns on both the long and short side. I always envisioned launching my own venture, and I had the opportunity to raise initial capital from a mentor who is a very successful investor.

Tourlite is the first long/short fund to feature in Hidden Value Stocks, so we couldn't let the interview pass without discussing your approach to shorting.

Can you explain why you decided to set up a long/short fund?

I am honored to be the first long/short fund. In our view, the role of a hedge fund is to capture spread. For a long only fund, it is relative to an alternative investment, commonly an index. For a long/short fund, the spread is between your long and short book.

Therefore, a fund's short book is fundamental for a successful long/short portfolio and the objective is to capture positive spread between our long and short ideas. In a down market, this should allow us to hedge market risk, reduce volatility, and the ability to redeploy capital to our long book at a lower cost basis. We aim to produce alpha from both long and short ideas.

We run a low net fund, meaning our overall exposure to the market is low. The size of our short book is about the same as our longs. Since inception, our net exposure has been close to zero.

What’s your framework for finding ideas to add to the fund?

On the long side, we are looking for high-quality companies at attractive valuations relative to future cash flows. Sometimes I invest in more opportunistic, special situation type opportunities.

Our framework is to look for businesses with sustainable competitive advantages, strengthening market share, predictable cash flows, and strong return on capital.

A quality and shareholder-friendly management team is very important as well. Poor management teams can always ruin good businesses. Ideally, we look for businesses that we can hold for 2-3 years. We have the flexibility to look at companies across market capitalizations and in less efficient parts of the market.

On the short side, we are looking for the opposite. We like to short businesses where we can identify deteriorating competitive advantages and companies that are over earning. Given my background, I like to look at these with a forensic accounting angle that can be backed up by further fundamental diligence.

We track the origination of all our investments on both the long and short side. This is a great exercise for us and allows us to continue improving our process for idea sourcing.

The majority of ideas are sourced from various internal research methods. In addition to our robust screening system, we source some of our ideas from our large network of investors and industry contacts.

Why do you think this strategy is different from other firms?

If you are good at identifying poor businesses, you can identify attractive ones. My feeling is that it is harder to find good shorts than good longs. For many, it might not feel that way this year, but over the cycle, I believe it to be true.

I believe the combination of my prior experiences offers a differentiating perspective to analyze opportunities. Unlike a lot of hedge funds, we can generate alpha both from the long and the short book.

Many interviews have been conducted on “concentrated” long only funds that focus on their best ideas. I generally agree with this approach, but it adds significant volatility and prevents the use of leverage.

Our view is that having a more diversified long portfolio built from many of the same principles combined with a strong short book allows for the use of leverage and, ideally, lower volatility. We believe this should result in higher risk adjusted returns. Our ideal long book would hold approximately 20 companies.

We are open to looking at hidden gems in parts of the market that are broadly out of favor. We are spending time looking at a few recent spinoffs that typically get beaten up in bear markets. In addition, we own a position in four businesses that were former SPACs.

Investors have broadly thrown out the entire asset class. For the most part I would agree, and we have been much more active with SPACs on the short side, but there are a few attractive businesses that have been brought out with the tide.

With a gross exposure of 50%, consumer stocks represent your largest single sector exposure. Are you finding a lot of opportunities here?

Our strategy is low net, so our net exposure to any sector is never significant. We do find opportunities where businesses are at attractive valuations relative to earnings growth. On the short side, we believe the consumer may be at risk which presents attractive shorts.

There is always money to be made on the short side when a business goes from “great” to just “good”. It often leads to significant multiple compression. You can think of many of the big box retailers that were highflyers during covid. Once demand started to slow and inventory piled up, multiples compressed.

Your next largest sector exposure is industrials, representing 30%.

Yes, we find attractive opportunities in the sector where businesses are trading at low multiples with growing earnings. Perimeter Solutions and APi Group are two examples. While some industrials are near all-time highs with peak earnings, that is not the case for the entire sector.

What are you looking for in a typical short?

We like businesses where we can identify deteriorating competitive advantages and companies that are over earning. Given my background, I like these with a forensic accounting angle that can be backed up by further fundamental diligence.

We spend more time on short idea generation due to higher turnover in the portfolio. We look at our short portfolio with a barbell approach consisting of a blend between traditional fundamental theses and aggressive short positions such as frauds, fads, and zeros. As we try to limit our exposure to “aggressive shorts,” the majority of the short portfolio falls under the “traditional shorts” bucket.

Our typical holding period for short positions is 6 - 12 months, which is significantly shorter than for our long portfolio and we are more focused on identifying a negative catalyst for shorts.

As volatility has increased over the past couple of months and risks to the economy have grown, have you decreased your net exposure by adding shorts?

For most of the year, we have held our gross exposure below our targeted range due to the dominance of macroeconomic factors and price action primarily driven by factor exposure. This resulted in high correlations between stocks. In the short run, this makes stock picking difficult. I have some data points from our past two investor letters. Our data shows this peaked in the first half of 2022 but still remains above historical levels. As correlations continue to break down, we will begin increasing our gross exposure.

From a net exposure point of view, our overall short exposure hasn't changed, but we have lowered our exposure to what I consider "aggressive shorts."

This is a result of many of these ideas becoming more consensus shorts. We still see a strong opportunity set on the short side, but a lot of the low hanging fruit has fallen. Many of the high-flying IPOs and SPACs from 2020 and 2021 are down over 80%, and short interest in the companies is much higher. It is just harder to bet a $4 stock goes to $2 than a $10 stock falls to $5.

And on that note, one of your most recent successful shorts is Ranpak...

Yes, from our fund's inception in April 2022 to the end of July, we were short Ranpak Holdings. We no longer have a position.

Ranpak is a 2019 vintage SPAC that manufactures machines and paper products and sells them through a razor/razor blade model. Think of the paper filler in your Amazon packages. Ranpak would provide customers with its machines for free or at a small cost and sell those customers its paper products. In April 2022, the Company had an ~$1.6 billion market capitalization.

Wall Street consensus saw continued e-commerce tailwinds fueling 10%+ organic growth. We expected growth to normalize back to mid-single digits as covid e-commerce tailwinds lapped and channel checks showed declining sales with its largest customer, Amazon. Focusing on the Company's financials, we found inventory levels rising and declining margins despite the growth of e-commerce.

From a valuation perspective, Ranpak traded at over 25x peak EBITDA, expensive on an absolute basis and more than two times Sealed Air, its closest, more diversified peer. We believed Ranpak's GAAP peer set leading EBITDA margin of 31% was misleading due to capitalizing of machine costs. This resulted in an approximately 10% benefit to reported EBITDA.

When did you decide to cover the position?

We exited our position in August at around $5 per share because our original thesis played out, growth slowed, and the market was pricing in our concerns. Supply chain exposure to Russia had an additional negative impact on the business.

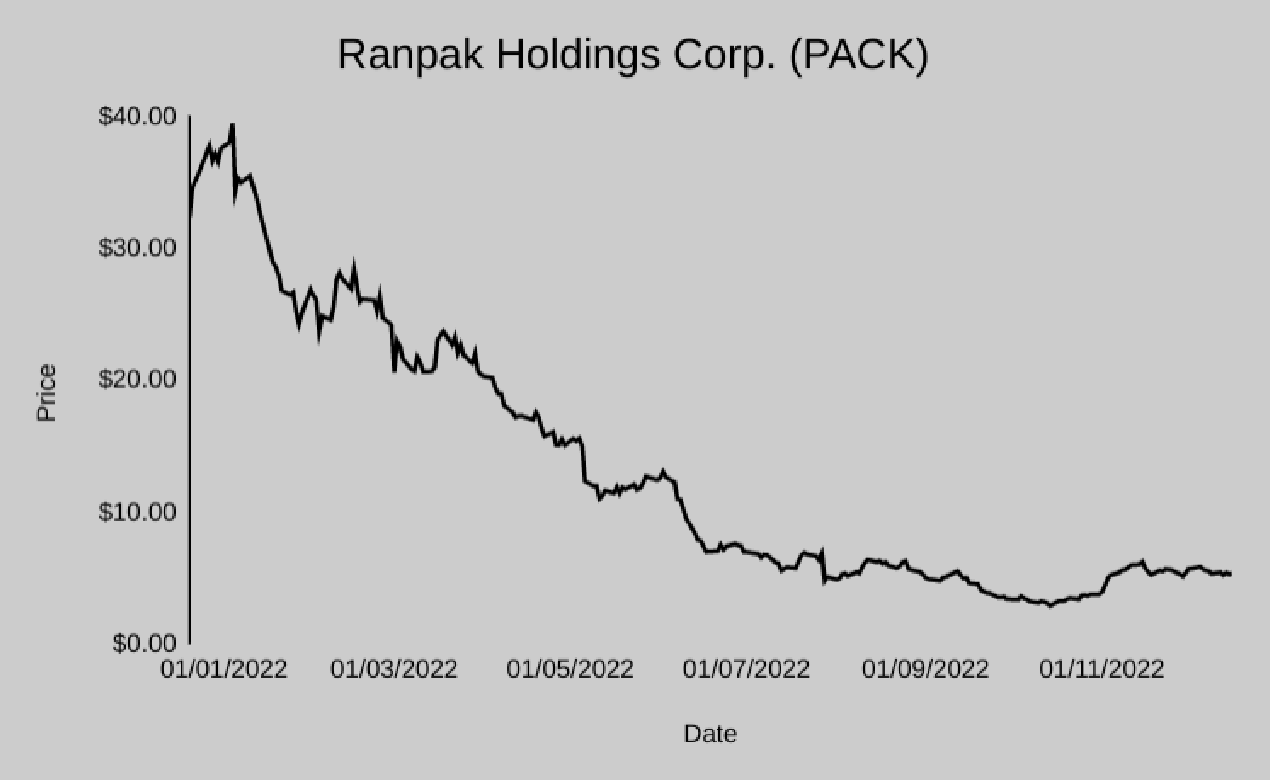
Are there any positions that have not worked out for Tourlite (either on the long or short side)?

We get things wrong all the time. Sometimes it's something that was in our control where we incorrectly accessed the situation. Sometimes it's the result of management execution.

Perimeter Solutions was down over 50% from where we started to invest in the business for reasons we thought were not reflective of the underlying business.

In hindsight, there are investments we would not make again, but many we would as we believe we correctly analyzed the available information.

In this business, results are often the only measure of performance, but the process behind those results is almost as important. A sound investment process is instrumental in producing repeatable attractive returns.



TOURLITE CAPITAL
STOCK IDEA 1: PERIMETER SOLUTIONS (PRM)

Your first stock idea is Perimeter Solutions (PRM). What does this business do?

Perimeter is the sole qualified provider of aerial fire retardant. This is the stuff sprayed out of a plane on a wildfire.

This mission-critical product represents a small portion of its customers' spend, and revenue is recurring in nature as long-term secular tailwinds and growth in the number and size of fires, support growth. Perimeter is led by what we consider to be an experienced, capital allocation focused management team.

How did you first come across the opportunity?

In this case, a friend told me about the company and from an initial look, it appeared interesting and checked most of the boxes I look for in an investment.

In your words, this is a high-quality business with a "close to 90% return on capital." How is the company able to earn such a high return on capital, and what's its competitive edge?

The business has a wide moat as the sole provider of aerial fire retardant.

At this point, it's as close as you can probably get to a monopoly. Any alternatives are just not as effective. What makes this sustainable is Perimeter is the sole approved provider by the United States Department of Agriculture (USDA).

A big risk is if another provider receives the same level of approval. Despite many trying, no one has yet, but that doesn't mean it could never happen. In that case, what we believe helps Perimeter sustain its competitive edge is its integration into customers' supply chains.

The planes used to drop the product on fires are located at bases. Those bases typically hold about one day's supply of fire retardant. Therefore, the speed Perimeter is able to get its product to customers is of the utmost importance, and they have the infrastructure in place. That would be difficult for competitors to replicate.

Moving on to management. Tourlite believes this is a "best in class" management team. Why do you hold this view?

This is a team with a history of driving shareholder value. Nick Howley's track record at TransDigm is unmatched. Eddie, the CEO, is a strong operator. The team has the experience and expertise, now it's just about executing.

Is management compensation geared to shareholder returns?

This is a management team focused on driving shareholder value and is aligned to do so.

Perimeter has a unique compensation structure similar to a private equity-owned business. The current high-water market is at $13.63. This "founders' agreement" is in place of the typical spac payday you saw with other businesses.

Some investors pass on investing as a result, but in my view, if it's a clearly defined plan and you can model it out, you can account for it going forward. I like a management team that is paid to perform and has skin in the game.

Why do you think the stock looks cheap today?

There is some concern that a new product from Fortress, a potential competitor, will finally receive approval for its aerial product. Again, we believe Perimeter's supply chain integration to be a sustainable competitive advantage.

In addition, the market seemed to be spooked by a weaker-than-expected fire season this year. We understand that while long-term secular tailwinds are in their favor, fire seasons are not perfectly predictable and have both strong and weak years.

Along those lines, it is important to know where these fires occur. This year had a large number of acres burned in Alaska, but fire retardants are not often used in remote locations where the fire is not a threat to humans and infrastructure.

How do you project growth evolving over the next couple of years?

Topline revenue should be able to compound around 10%, fueled by increased volumes as well as pricing. Acres burned continue to increase, fires are becoming larger, and fire seasons continue to be stretched out. All these factors should help volumes.

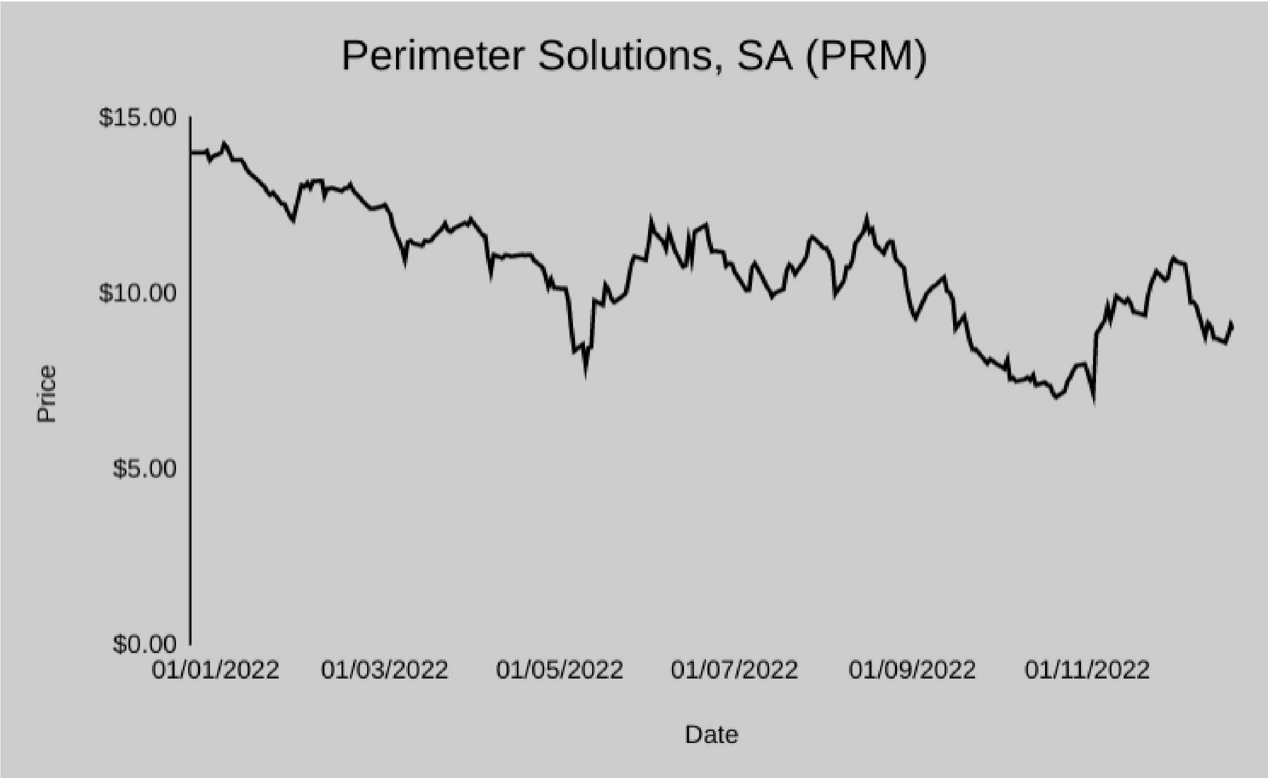
They should be able to continue raising pricing in the mid-single digits. We also see growth in the underpenetrated international market and through their Specialty Products segment.

International is currently less than 20%, and Specialty products is about a third and growing.

What is the business doing to drive growth?

They will continue to execute and let the secular tailwinds carry them in the North American market while taking incremental price along the way.

There's a large opportunity for international expansion of its aerial fire product which is beginning to gain traction. The second leg of Perimeter, which gets less focus, is Special Products which has grown year-to-date revenues 40% and has more than doubled EBITDA.



What's your price target for the stock based on these forecasts?

Close to $15. There is an upside to numbers as we see the Street's estimates as too conservative.

Based on where we see 2023 numbers, at the current share price of around $9.5, Perimeter is trading around a 6% free cash flow yield. That is for a business with considerable competitive advantages that should grow free cash flow per share by over 25% per year for the next two years at least.

I believe Perimeter can get close to a dollar per share of free cash flow by 2025.

Is there anything that could go wrong over the next few years that might de-rail this projection?

Fire seasons are unpredictable, and we will continue to monitor this over time. We don't foresee a slowdown in the long-term trend of acres burned, but you never know.

The biggest risk is losing market share if they are to lose their status as the sole approved product for aerial use.

TOURLITE CAPITAL
STOCK IDEA 2: VERRA MOBILITY (VRRM)

Verra describes itself as a leader in smart mobility, but could you describe how the company actually makes money?

They have three business lines, commercial, government, and parking. The commercial business provides tolling services and violation management for fleets, commonly rental car businesses.

When you get a rental car, and they ask if you need a transponder to pay for tolls, that is this business. You can pay an all-inclusive flat fee for the transponder or a daily usage fee plus tolls. If you get a ticket while driving the rental, Verra handles the logistics of it for the rental car agency.

The government segment includes red light and speed cameras. If you get a ticket running a red light in New York City, Verra handles the city's logistics and has a revenue share agreement.

The parking business makes up less than 15%, but you can probably see how Verra can use its technology to manage parking lots for universities and cities.

A large segment of the company’s revenue comes from government contracts. Do you think this exposes the business to political risks, and are you comfortable with this level of exposure?

Once awarded a contract with a municipality, we view it as very sticky. New York City is the largest customer. Texas decided to turn off cameras due to political pressure in 2018. While that is a risk, it seems to be an isolated event. Redlight and speeding cameras can be significant revenue drivers.

A disadvantage of government exposure is agencies are often very slow moving which could stretch out the company’s growth timeline as legislation is often needed to kick off the process.

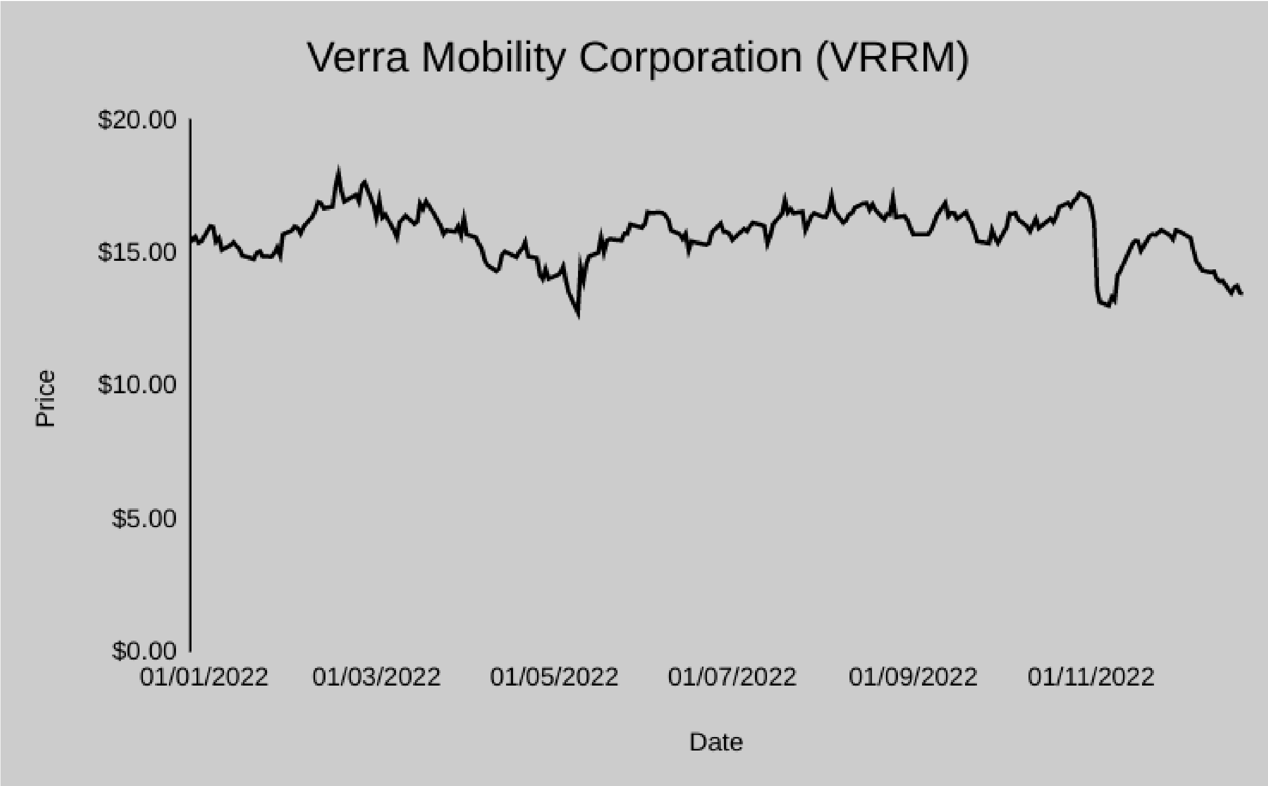
What are the main growth markets for the enterprise going forward?

Each segment has an opportunity to assist in driving growth.

Commercial is going to continue to grow, and the fleet management business will be a driver. There is a continued trend in the conversion to toll roads. There is a large expansion opportunity in Europe. Historically the market has been mostly cash tolls, but this is likely to shift. Verra has a few pilots in place and has the track record to gain share as the market expands.

Government can be a needle mover for the business but would take more time. I think the market would well receive the adoption in a large state such as California and Florida. While a lot of focus ends up being on New York City, I don't think there is as much appreciation for the large scale of smaller, non-NYC contracts which have less headline appeal but good growth.

There is an upside with the parking management business for universities and small cities. The is a high single-digit organic grower with a lot of white space where they can leverage existing government relationships.



How does the business fit into your high-quality framework - what's the company's competitive edge?

Verra is the market leader with formidable barriers to entry in all its segments. It would be difficult and expensive to replicate as they are highly integrated with customers.

Similar to Perimeter, this is a business with a moat, strong free cash flow, and return on capital metrics, trading at what we believe is a discount to fair value.

They have a competitive edge with their integration with fleets, toll operators, and government agencies. It would be difficult and expensive for customers to switch.

Sometimes I hear people talk about ridesharing and autonomous driving as a risk to terminal value. In my view, this could be a positive long-term catalyst for the fleet management business.

Are there any risks you're keeping an eye on - any threats to your future growth projections?

This is a volume-driven business with significant operating leverage. The lack of travel during Covid had a major impact as could an upcoming recession.

However, the government segment is pretty durable, and half of those contracts are fixed rate.

Some parking revenue could be at risk as well as commercial travel exposure. TSA data continues to be strong, and you will see a decline in airline bookings before Verra's rental car business slows.

What's management's track record of value creation?

Management has done well. They have built enviable market positions in tolling solutions and photo enforcement and are close to, if not, the leader in automated parking.

Verra is one of the few SPACs that has made it so far. They have done two deals in the past year while buying back over $200 million of stock.

David, who joined as COO in 2014 and CEO since 2018, cleaned up what was a founder led business with the challenges those types of companies have. They are building a company focused on themes around connected fleets and urban mobility.

Is management incentivized to achieve the best results for investors?

They own some stock. Compensation is tied to restricted shares and since some executives have recently joined, they haven't received an overwhelming amount.

Based on all of the above, what's your price target for the stock?

This is a business with stable competitive advantages and the ability to continue to compound capital with its existing businesses. A free cash flow yield north of 7% for a business with these characteristics seems cheap to me.

We think the business should generate a return on equity of around 70% next year. At a 5% yield, this business should trade above $20 per share. I think what some investors miss is, any new legislation leading to incremental government contracts and future European growth is incremental to the company's guidance.

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