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EP 135 | Global Small Caps, Engaged Owners, and Reverse Roadshows

Andrew Johnson (00:00):

Hi everyone! In today's episode, I'm joined by John Wilson, co-manager of our global small cap portfolio here at Mawer. We start off by getting the latest updates since our last podcast with the team, including performance and recent changes, as well as hearing about a new approach to reverse roadshows.

John also shares some key insights from the team's travels, and he discusses the long-term impact of the shift away from low interest rates. We wrap things up talking about a few of the newer holdings in the portfolio. I hope you enjoy the conversation.

Disclaimer (00:52):

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Andrew Johnson (01:08):

Welcome back to the podcast everyone! Today, we're going to be talking all things global small cap with Co-Manager, John Wilson. Hey John, welcome back to the podcast.

John Wilson (01:16):

Hey, thanks AJ.

Andrew Johnson (01:17):

Listen, the last time we spoke—well, on the podcast at least, you and I get to speak a little bit more often than that in real life—but the last time we talked global small cap on the podcast was August of 2022 with your teammate, Karan, which was not too distant from the severe market correction and the pullback in our portfolios that occurred in the first few months of that year.

We talked with Karan a little bit about the factors that led to some short-term underperformance during that period. I wanted to pick things back up there. So, to start, perhaps you can briefly just put that period into context once again, and then tell us how the portfolio has been doing since then.

John Wilson (01:55):

There was a period there that Karan covered on that podcast where there was some underperformance of the portfolio versus our benchmarks. We spent a lot of time thinking through and analyzing why that was a case, and came up with a few different things.

One of them was just around valuation. We probably got a little bit overweight when it came to the companies that we invested in when it comes to the quality, and we were slower to adjust the valuations as interest rates rose.

That was a big focus for us beginning…actually, the start of last year, was to bring the duration of the overall portfolio down. I think we've been really successful with that. If you look at the average multiple that the portfolio trades on today, it's a lot better than where it was a year ago, 18 months ago, and even nine months ago. That's something we've made a conscious effort to do just as rates have risen.

John Wilson (02:42):

I think the other big focus—I don't know if Karan touched upon this or not, but Europe is an overweight for us, versus the U.S. And if you remember, 12 months ago there was a lot of talk about the energy crisis in Europe and a lot of concern around that, so there was some relative underperformance just from that factor alone. You notice that Europe didn't freeze in the last winter; they managed to work through at least the issues in the short run, so we've seen some of the performance come back from that.

The one thing I'd caution with this answer is that we're talking about a timeframe of about a year. Really, the way we think about this when we're investing in these companies, is we like to hold them for the long run. We're not looking to date them for six months, a year—we're looking to get married to them. So, much longer term.

When we're thinking about that investment time horizon, it's really five, 10 years in length or longer. Over that timeframe, what we think really matters is partnering with good management teams that are running wealth-creating businesses and buying them at a good price.

Andrew Johnson (03:40):

Well, hopefully, our real-life marriages last a little longer than five to 10 years, but we all understand that there's some vagaries to the markets that can prevent things like that happening.

I was also curious to know what some of the key changes to the portfolio since that timeframe have been, maybe put into some context the general outcomes in terms of portfolio characteristics. So, really, how you're trying to set that stage for that future performance.

John Wilson (04:03):

Something that we've been emphasizing more over the last three years… I would say there's three items that we're really focusing on. One is this idea of engaged owners. An engaged owner is a management team that has significant skin in the game. I can go into more detail on why we think that's important, but we think that having a management team with significant skin in the game leads to outperformance over the long run, and so we look at this.

We have stats on the portfolio on this: almost 70% of the portfolios and companies that we think have what we deem a strong engaged owner, that's up from 60% a little while back, so we continue to move in that direction.

Just to give you a sense, I think people talk about this in different ways. I think when people hear the idea of, "Hey, we want the management team to have skin in the game," they think, okay, well, the individual owns a million dollars' worth of shares or something like that. But, in fact, it's a lot more than that, significantly more than that in almost all cases.

John Wilson (05:00):

If you look at our recent initiations, Dermapharm, the individual who founded that and is still a large shareholder, owns 67% of the shares outstanding. Ipsos, $200 million worth of shares. Hikma, the family owns 30%. Just significant, significant holdings.

They're really thinking about the long term, and really thinking about the next generation rather than quarterly earnings or things like that. I think that's something that we've focused a lot on and we think that gives us an edge.

The other one we talked a bit about—just bringing the duration down. Interest rates are higher. We think that is important, and that's something that we continue to do on each incremental dollar of capital that we allocate. We're looking to allocate it towards companies that have lower duration. That's another big emphasis.

Then the third one is this idea of a variant perception. Now that's always been a part of our research process and our research reports, but I think we're giving it a larger emphasis in the last three years.

John Wilson (05:57):

The idea of a variant perception is it actually goes back to this idea of efficient markets. If you've taken any business classes, there's this idea that markets are efficient and therefore, you can't generate excess returns without taking additional risk.

By the way, I think the majority of time that's the case. The market is pretty efficient. It's not efficient all the time. Oftentimes, when it's not efficient, one of two things are happening: either the market's missing something, or the market's weighting something differently than you. I'll give an example on both those fronts.

In terms of something that the market might weight a bit differently than you, Dermapharm, going back to that example, so that's a generic company out of Germany, and they have a large percentage of their revenue relating to COVID vaccines.

John Wilson (06:37):

What happened was there was a period where that was all rolling off and the future revenue from those vaccines was declining. If you were an investor that had a one-year time horizon, or 18-month time horizon, that was probably pretty risky for you. Because you knew that over that 12-month, 18-month period it was going to be weak earnings and that's something that matters a lot for people that are playing the earnings momentum game.

John Wilson (07:05):

We looked at that and we tried to back into what the profitability of the business would be if you excluded all the COVID-related vaccine revenue. And we thought, at that price, we thought we were paying maybe around 10 to 14 times earnings, which we thought was really, really attractive for a company that leads in its niches.

So we said, "Yeah, in the near term we might have this earnings headwind, but actually this is a pretty good price." So there's a mismatch in what we focused on, versus what the majority of investors focused on, which is that shorter time horizon.

The other example would be where the market misses something. Another recent initiation is a company called Donnelley Financial. What Donnelley does is they help public companies file their materials, so their 10-Ks, prospectuses, 10-Qs, things like that. It tends to be a really mission-critical service that they're providing, so the clients tend to be hesitant to switch providers.

John Wilson (08:00):

There's two things they missed about that. The first thing is seven years ago there was this fair amount that was still paper based. Donnelley would help the clients actually print this off and mail it. Of course, that's largely gone away today.

Over that timeframe, they've seen this revenue headwind. But if you look at it, prints are a much smaller contributor to their profit today, so that headwind is not going to persist into the future.

The second thing, I think, actually, the more important thing, is that the company is in the middle of transitioning from people doing this, providing this help in a manual way (a bunch of staff members doing this), to a software-based option, which is a significantly higher margin.

They're at the beginnings of that transition now, but we think over time, it's a much better value proposition for the client. We'll think that will gain more momentum with their clients, and think we'll see that in the profitability over time. But because of that chequered past of the print, it's not evident that this transition is happening.

John Wilson (08:57):

That idea of having a variant perception is something that we're focusing a lot more on, focusing on things that people miss, or where people weight things a bit differently than us, and we think there's an opportunity to generate some alpha.

Andrew Johnson (09:10):

Just coming back to some of the comments that you made earlier about just the way that the portfolio's been positioned coming out of 2022. Again, like you said, we're trying to gear this thing up for the long term, but there are some things that we can [do], and these are very simple things to look at. You alluded to it, and it's shown up in a couple of different ways in the portfolio stats.

A reduction in the number of holdings in the portfolio is something that I've noticed in your portfolio over the last several quarters. In other words, you and the team have exited a good number of holdings in the time since we last spoke. I think, on the order of nine or 10 holdings since the last time we chatted.

Andrew Johnson (09:45):

But, also, the metrics that you mentioned, as well. The much more attractive on a P/E multiple than the benchmark currently, but also maintaining a much more appealing return-on-equity stat versus that benchmark, too. So, still having that high quality but currently, from a valuation perspective, setting ourselves up for the future and hopefully better risk-adjusted returns moving forward.

Shifting gears just slightly, I'm always curious—with our global portfolios in particular, because it's such a big universe of stocks—I'm always just curious where our global small cap team, you, Karan, Christian, where you've been travelling this past year or so, and what have been some of the outcomes of that?

John Wilson (10:24):

Karan did a big trip to Italy. I guess it was last summer that he did that. He visited a number of our companies there. Technogym was one that he visited. That's like the LVMH of gym equipment. Super high-end treadmills, weight machines, things like that. Consistent with the theme that we just mentioned. The family that runs it owns 30% of the shares; they have an engaged owner.

The big learning from that was just how innovative that company is. They're really pushing on creating a digital solution for that gym equipment, which we think actually helps with the moat, so maybe I'll talk a bit about that.

Traditional gym equipment, when you sell it to a gym, there's not a ton of loyalty the next time you go to refresh the equipment. You don't care whether it's in the old world, whether it's Technogym or Nautilus. You're pretty indifferent between those two options.

But what Technogym is trying to do is they're trying to incorporate more and more software into their machines. The idea, and they've built this out already in their machines, where the individual at the gym will sign up and have an app, the Technogym app, that they would use to set all their workouts, so it's almost like a personal trainer.

John Wilson (11:36):

It would keep track of your reps, keep track of your weights. Next time you go to that machine, it sets the weight at the level that it thinks you should do. It counts your reps, adjusts the workout program.

Now, if you think about that, that's actually a software business in disguise. You're selling gym equipment but it's actually software. And if [the gym that] implemented the software were to go to switch to another provider, well, now you have to get all of your gym members to change over to a new software that they're using.

And by the way, they lose all the data on what reps and the programs that they set up. So now you've created this customer stickiness. We were just really impressed with the things they're doing on the innovation side of things, and we think that's really important.

Again, I think that goes back to that engaged owner angle. If you own 30% of the shares, you're going to be thinking about the long term. Something that we say is, hired guns (so, people [who] don't have large amounts of shareholdings), they try to build the resumes, whereas engaged owners think about building their dynasty, so they're thinking about the long run.

John Wilson (12:41):

The first time that clicked with me, actually, was when we were looking at two beer companies in Malaysia. There was one company that set a track record for 10 years of taking market share from the other.

When you talk to the company about it to try to understand why that was the case, the reason was simple. It was the one beer company that consistently lost market share—they would use that market as a "training ground." They'd send a manager there for three, four years and then they'd bring him back. They see how he does and then bring him back to headquarters.

What that promoted was every manager that arrived, they wanted to put their stamp on it. So they had some big promotional thing that would look good and pay off within the next couple years, but that really didn't build the brand long term.

The other company did the exact opposite. The manager was there for a very long time. They thought about the long run, and they consistently were able to win against that other competitor because of that, just having a longer time horizon.

So, I think there's a lot of benefits to having these engaged owners. I think Technogym is another example of that.

John Wilson (13:46):

I think the other big change was that Ben Heck joined our team full time. That was actually just recently, last week, so we're very excited about that. Ben is a [Western University] grad. He rotated through global small cap team, and we were very impressed with the work he did on the companies he covered.

John Wilson (14:00):

You know that you've hired a really good analyst when he wrote a report on a company I covered—and I've covered it for three, four years—he was teaching me something new about the company that I didn't know, which is really impressive for the first report that you write out of university, to have that level of insight and the level of research. We were really impressed with him. We're very excited for him to join and, yeah, I think it's going to be a great fit.

Andrew Johnson (14:27):

I think it speaks to you having an open mind as well, and the communication and trust that you've built on that team, so that's fantastic.

Just coming back to that Technogym example and the engaged ownership, I was going to go there too, but you went in-depth about the impact that an engaged owner can have and it just strikes me that a CEO or a leadership team that doesn't have that sort of ownership alongside the other shareholders, like you said, they're going to come in there and do things that are good for one or two years.

But we really see the impact over our holding periods five, 10 years, hopefully longer, where we see that positive impact from family-owned businesses, or just simply very engaged skin-in-the-game type of ownership from the executive team.

John Wilson (15:07):

You get so many benefits of the engaged owners! So, you have the benefit of thinking about the long term, but there's other things as well, just around they're much more aware of risk.

If you think about this large amount of your family's money, imagine all your brothers and sisters and your children's and your grandchildren's money invested in something—you're going to be extremely focused on the risk and making sure that things don't get disrupted, or any issues around that.

I think the other thing is they stick around when times get tough. If you have all your family's money tied up in the business and there's a hiccup along the way, you're probably not going to just take off. You're going to stick around and try to figure it out.

You don't see that with managers that don't have a lot of their wealth tied up in the business. We keep coming back to this as a learning. We relearn again and again, just there's a ton of additional value you get from partnering with people that have large amounts of their wealth tied up in the company.

Andrew Johnson (15:58):

I have to believe too, John, that our style and our preference for holding companies for a longer period of time [means] we would be attractive shareholders for these types of businesses, as well. They know and trust that we're not going to also leave at the next earnings announcement that disappoints.

John Wilson (16:15):

I think so. I think that also gives them more leeway. If they had a number of investors that were pressuring them to cut back on R&D in a downturn or things like that... We've had calls with managers in the past during COVID where we'd say, "Hey, listen, yeah, you need to manage your liquidity, that's very important, but as long as your liquidity's managed and if you think you can gain market share by investing more in R&D or more in more marketing, we're all for it."

We communicate that message to them because I think a lot of investors, for every one investor like us that is communicating, "Hey, spend, spend. Here's a good opportunity." There's probably 10 that are saying, "Hey, you better cut back on spending. You don't want to miss next quarter's earnings." We think that it's important to engage with them on that.

Andrew Johnson (16:57):

We've had some distance from that stormy period that I alluded to earlier, the first part of early 2022, at least for now, we're out of the storm. In terms of the continuous investment process where you and the team [are] turning over stones, you're talking with companies and management teams, what have been some of the themes or the learnings that you've observed more recently throughout this tumultuous time period that we've been through?

John Wilson (17:21):

This is something that a lot of people are talking about—is just the impact that AI will have on the economy and on the portfolio. It's something that we've talked a lot about, and we try to think about that.

Our goal is always to try to figure out how we can prepare rather than predict. I think that's an important idea, because if you look at this large language model technology, it's very early innings. The impact it'll have is very difficult to assess at the moment. The way we think about that now is when you have a technology shift like this, or any time where you have an environment that's changing, what that really does is it drives a wedge between the quality managers and the weaker managers.

You can think about that in any other profession. If you are, I don't know, a captain of a ship and you have two captains of the ship, one is an expert captain, has been doing it for 30, 40 years, has seen a number of different types of weather conditions, and the other one just graduated last week...

John Wilson (18:21):

If the water's flat, as a passenger, you're not going to be able to tell the difference between those two. It's only when the waves start picking up and things start getting a little hairy out there that you notice the quality of the captain and the skill actually starts to shine through.

We think that AI has the potential to be a really large wave, and we think the good managers will catch it and surf it. They'll improve their costs. They'll improve the value they deliver to their customers. The bad managers will flounder or drown. So, that idea of partnering with good managers... I think it's always been important, but it's something that we're definitely emphasizing more with these types of changes.

John Wilson (18:41):

We are also very excited about the value that we might be able to capture internally around this. Some listeners might be familiar with our internal database called M42 where we log all our notes and all our management meetings, our matrix scores. A lot of data that goes back to the '90s. We've had this for a number of years.

John Wilson (19:20):

I think we're realizing that we're going to be able to access that and draw on that in more meaningful ways, and much easier ways than previously. Our Lab is already experimenting with this on how we can use the data set that we have in order to more easily access the information we have and synthesize it.

My story around this, at least, is that it's a long way away from these models actually replacing the analysis and the decision making because there's a lot of probabilities and uncertainties associated with it. There's a lot of things that haven't happened yet that's not in the data set that you're inferring from the data set, so I think it's tricky to get there.

But I think it will play a big role in just getting that data to our fingertips a lot easier and in a more intuitive way. We're really excited about that. That's another one that's definitely on our radars.

The other one that I'm thinking about is we don't predict things, but we try to prepare for things. It seems like there's at least some cracks that are showing up in the economic landscape, whether it's the U.S. banking system, or the rampant inflation. That's something where we're not trying to figure out what's going to happen here, but I think we can adjust and we can manage the portfolio we have ahead of time.

John Wilson (20:32):

One of the exercises we went through is we've gone through the entire portfolio and any company with above 1x net debt to EBITDA, we've gone through and documented any covenants that are publicly disclosed, understanding the liquidity profile, understanding the past cyclicality and the drivers of that. Also, because interest rates are moving up, the percentage of the debt that's fixed versus floating.

The idea there is that we can choose to allocate capital towards companies that have a better balance sheet and that are more prepared for this [or] any economic issues that do arise.

The second thing is when those issues do come up, we've already done the work. I remember in COVID, this was one of the reasons why we did this, because during COVID, suddenly we had this liquidity crisis that hit the entire market and it hit it out of the blue, basically.

Those weeks were spent talking to management trainees, trying to get them on the phone to understand some of these things that we'd like to have at our fingertips.

John Wilson (21:30):

So, now that we've prepared this, I think that we'll be in a better spot to act on the offense. We'll be able to be more confident in our ability to add to positions that we think are attractive, or even look outside the portfolio to companies that have been sold off and look for opportunities out there, rather than just focusing on the portfolio that we have currently.

Andrew Johnson (21:49):

Seems like a great improvement to this concept of constant vigilance around these types of events that, in the investment world, we call them "once in a century" but they happen all the time. We have to be mentally prepared, emotionally prepared, but also just analytically prepared like you just described, which is understanding the balance sheets and where these companies fit.

I want to geek out a little bit more on process, John. Our listeners and our clients have heard us talk in the past about this concept of a reverse roadshow. So, for anybody that hasn't heard us talk about that before, it's basically the opposite of a roadshow. Instead of going out and seeing companies around the world, you are hunkering down with your team in a room. You're placing back-to-back video calls or phone calls and getting this interview process all in one sitting.

Now, they don't replace the importance of getting out there and visiting with management teams on their turf, but it's certainly more complimentary to that, I guess, within the entire investment process that you undertake.

Andrew Johnson (22:45):

But one of the approaches that you've talked about more recently that you and the team have taken, is to structure these reverse roadshows to be less frequent in nature but larger when you do them.

I wanted you to talk a little bit about that and perhaps what the benefits of that can be, because I know it's something that you're just trying out. I think just coming back to that concept of variant perception that you mentioned earlier—I have to assume that helps play a role in that, too.

John Wilson (23:09):

That's it, exactly. One of the things with this focus on variant perception, that means you need to do deeper work when it comes to screening. You need to go a level deeper to understand whether the market's missing something.

That's the insight we had—if that's going to be our focus, well, we should spend more time screening for these, which means that we need more time in-between the roadshows in order to do that. But we didn't want to sacrifice the number of rocks we turn over—the number of companies we speak with—because we think that's an important indicator of finding alpha, as well.

The thought was: let's talk to the same number of companies, let's do it less often. Probably every five to six weeks we'd run a roadshow, and now we're running it more quarterly. We're having more time to screen, and I think that's helpful.

John Wilson (24:00):

I think about the last roadshow, because it indicated that something is, perhaps, not as it seems on the surface. The one I'm thinking about, I won't mention the company, but the insiders were buying. That was peculiar because the company had a ton of debt on the balance sheet and earnings were going down.

The headline, first-level thinking is, well, there's solvency risk here and there's a bunch of concerns here. It took me… I think if we were to screen this, if I were doing this maybe two years ago, three years ago, that'd probably be where I'd stop on it. Because if we're doing this roadshow so frequently, you wouldn't have the time to dig on that.

Well, this one… I think it took me 30 minutes to an hour to figure out what's going on because, yeah, there's two hypotheses you can have there, you can either say, "Hey, you know more than the insiders," which can be the case. Maybe they're not very good at their job or there are other reasons. Or, there's something else going on.

What happened here was the debt that they had was completely convertible at the company's option. So, if you were to convert it at the market price, it was trading on something like 6x or 7x earnings, which is extremely cheap.

John Wilson (25:03):

I think that we've seen more of those types of ideas where it looks yucky on the first glance, but then you need to do that additional digging at the screening level to understand whether it's worth speaking with them or not.

I think there's a virtuous cycle here. If you spend more time screening and deeper types of screens, well then the feedstock that goes into the roadshow, the type of companies that we're talking to, the quality of them increases, which then increases the quality of the companies we purchase and we have to select from. That, actually, makes the whole delta process a lot easier.

Because, oftentimes, the deltas that take the longest time are the ones where the thesis has gotten off track and you're trying to figure out whether it's off track or not. You have to go down a million different rabbit holes to try to figure that out.

Versus when you have a good management team and the thesis is on track, those are a lot easier deltas to write. So, then you free up a bit of time on delta time, which gives you more time to screen, and then around and around you go. So, there's kind of this virtuous circle we talked about. I think that's the other thing. Less roadshows, bigger roadshows that allows us to look a level deeper and I think also helps kick in that virtuous circle.

Andrew Johnson (26:16):

The delta process that you're referencing is basically when you go back to the original report and the original thesis and you revisit everything—you revisit the discounted cashflow, the valuation work, and what's changed since the last time you looked at the company.

Andrew Johnson (26:36):

Stepping back even more John, just one major change that has occurred—and this has been on the minds of clients, listeners, basically, the general public at this point, the investing public—over the last year or so, we've moved away from this environment of zero, or essentially near zero interest rates, to this, at least currently, new environment where we have higher interest rates than what we've seen in probably a decade or more in better part or all of our career, and potentially moving higher from here depending on central bank action.

What does that mean for you as an investment manager putting our philosophy and process into action every day?

John Wilson (27:02):

You're absolutely right. The punch bowl has been taken away here. In the near term, that's never fun. But we think, over the long run, that's probably a good thing for the economy and for the companies we invest in.

As global investors, we've seen enough cases where inflation just becomes baked into the system. I'm thinking about Brazil where last year's inflation is what the union asks for in their pay bump in the next year. Think about that cycle of trying to get out of that—it becomes very tricky to do. So, overall, we think it's a good thing that these rates are going up.

The main changes are just around that duration piece that we talked about, just with higher inflation tends to be higher interest rates, so making sure that we manage the duration side of things.

Overall, I think we're actually in a really good setup on a go-forward basis. I haven't personally seen the portfolio trade this cheaply in a long time. And I think just as importantly, we were able to improve the overall portfolio during the period. I keep going back to it, but more engaged owners, and our ROE remained excellent, so we keep investing in these wealth-creating companies.

Andrew Johnson (28:02):

Well, let's talk about some of those wealth-creating companies just to wrap up here. Are there any holdings that can help illustrate our philosophy or our process in action for our listeners?

John Wilson (28:09):

Maybe I'll talk about two of the more recent initiations. Hikma, they manufacture generic drugs, mostly injectables. Oral generics, as a whole, get a really bad rep because they tend to have a lot of competition. And that's actually a rep that's probably deserved—it tends to be really cutthroat. Although there's some quality standards, a lot of people can meet them, so it's not that tricky to do. It tends to be a tough business. Hikma is a bit different because not all generics are oral, and Hikma mainly focuses on injectables.

So, as soon as you go to an injectable, you're administering something intravenously, the quality standards shoot through the roof. Which is why in the U.S. you see the vast majority of the market is concentrated in just three players. It's a very concentrated market.

John Wilson (29:00):

Hikma is the number two player in the market. That means they have the scale to invest in all the quality standards that they need to and a lot of smaller players can't do that. The management team—they own 30% of the shares outstanding, they're highly aligned with the business, and they've actually done a really good job of growing market share over time.

That lines up with that thesis of, or that theme of, we think there's a variant perception here around the business model. We think that there's a nice setup with the engaged owner who's aligned with shareholders, and there's this nice track record of them executing over time.

The other one we initiated on is a company called SoftwareONE. The founder owns $250 million worth of shares, so, again, engaged owner, check. They're a software reseller out of Europe, so, that tends to be a really good business because what you're effectively selling is advice. What you're doing is selling this advice to the IT department of any medium-sized or large company.

Those IT folks, they'll have questions on which software to select, or trying to figure out a technical issue. They can pick up the phone and call one of these resellers and get an answer very quickly. What that means is that that person cares a lot about the quality of the advice as well as how quickly they get it and not so much about the price. The price is not a big determinant because these are small ticket purchases, small dollar amount purchases. So you have customer stickiness.

John Wilson (30:23):

And then you have the added benefit of a scale benefit. Being a large software reseller, SoftwareONE is able to get a better price from the software vendors like Microsoft, Adobe, etc., so there's a scale benefit as well.

Now, where we think we might have a differentiated view is, over the last five years or so, there's been a big transition in the industry towards providing more services. Providing more complex solutions to the customer where you're combining multiple products together.

If you think about what that entails, that means you need to provide higher level advice, and that means you need to pay people more. You need to hire more experts.

So, what's happened to their margins over time is their margins have come down as they invested more in services. Management has now said, "Hey, I think we're at the scale that we need to be here, and the focus now is on improving margins." So, if you look at the financials, for multiple years you see the margins come down and you're starting to see it improve.

John Wilson (31:18):

This is one thing that we like about it is because at the current price, you're not paying much for the margin improvement. If the margins never improve, that's basically where the price trades at today. But you have this additional upside if they're able to improve margins to where they're trying to hit, where they're trying to target, so we think there's a nice skew on SoftwareONE.

Andrew Johnson (31:36):

Awesome. Well, John, I think that's a great place to wrap things up. We'll let you get back to work on the portfolio. If there was a word cloud that we would put on this podcast today, I think "engaged owner" would be right in the middle of it. As always John, it's been great to talk to you. I always learn something and I'm sure our listeners and our clients did, as well. We appreciate your time.

John Wilson (31:55):

Great. Thanks, AJ.