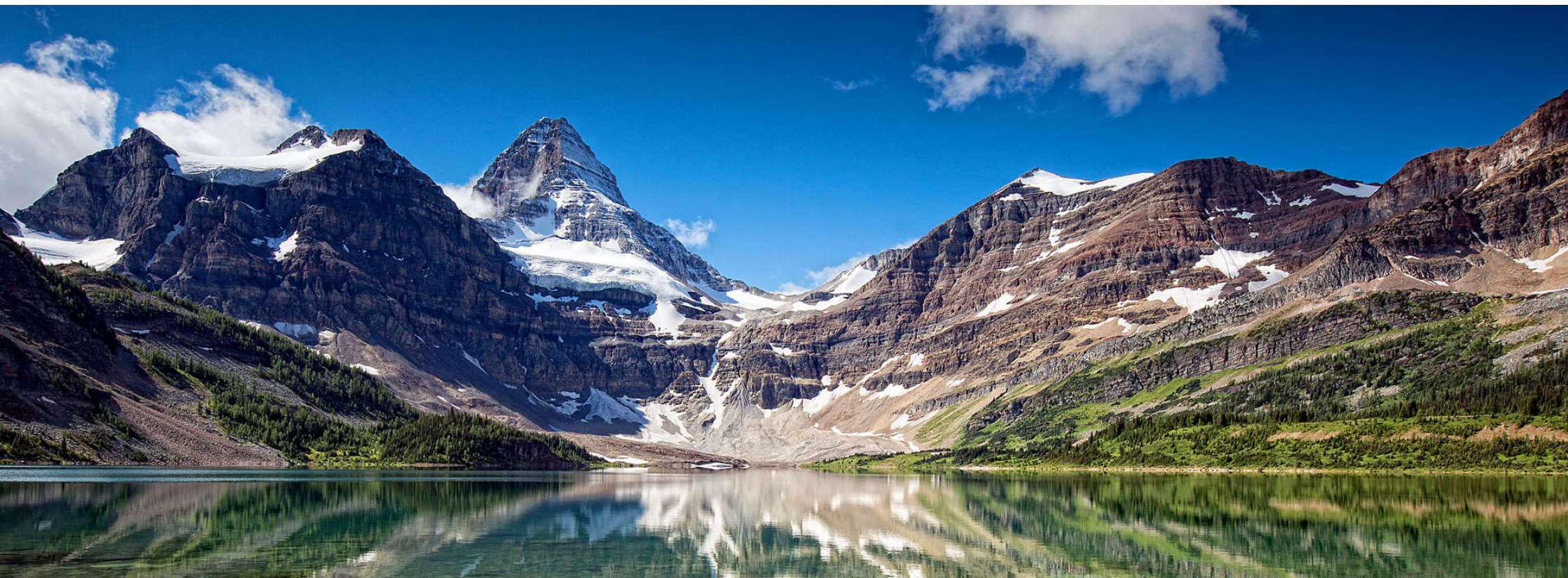


# *ARR* | INVESTMENT PARTNERS



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# Outline

1. ARR Overview
2. ARR Strategy
3. S&T Business Description
4. Industry Trend
5. S&T IoT Solutions
6. Non-Cyclical growing business
7. Acquisition Fuelled Growth
8. Recent Sell-off: Criticism and Response
9. Asymmetric Risk Return
10. Conclusion

# About ARR Investment Partners

## BACKGROUND

- Five years of bear market experience

## OUR TARGET

- Gross Return > 10% p.a.
- Max Drawdown < 10% p.a.
- Low or negative correlation in sell-offs

Historically the ARR Global Long Short Equity Strategy has significantly outperformed global stock indices with higher performance and lower peak-to-trough drawdown.

## RECOGNITION

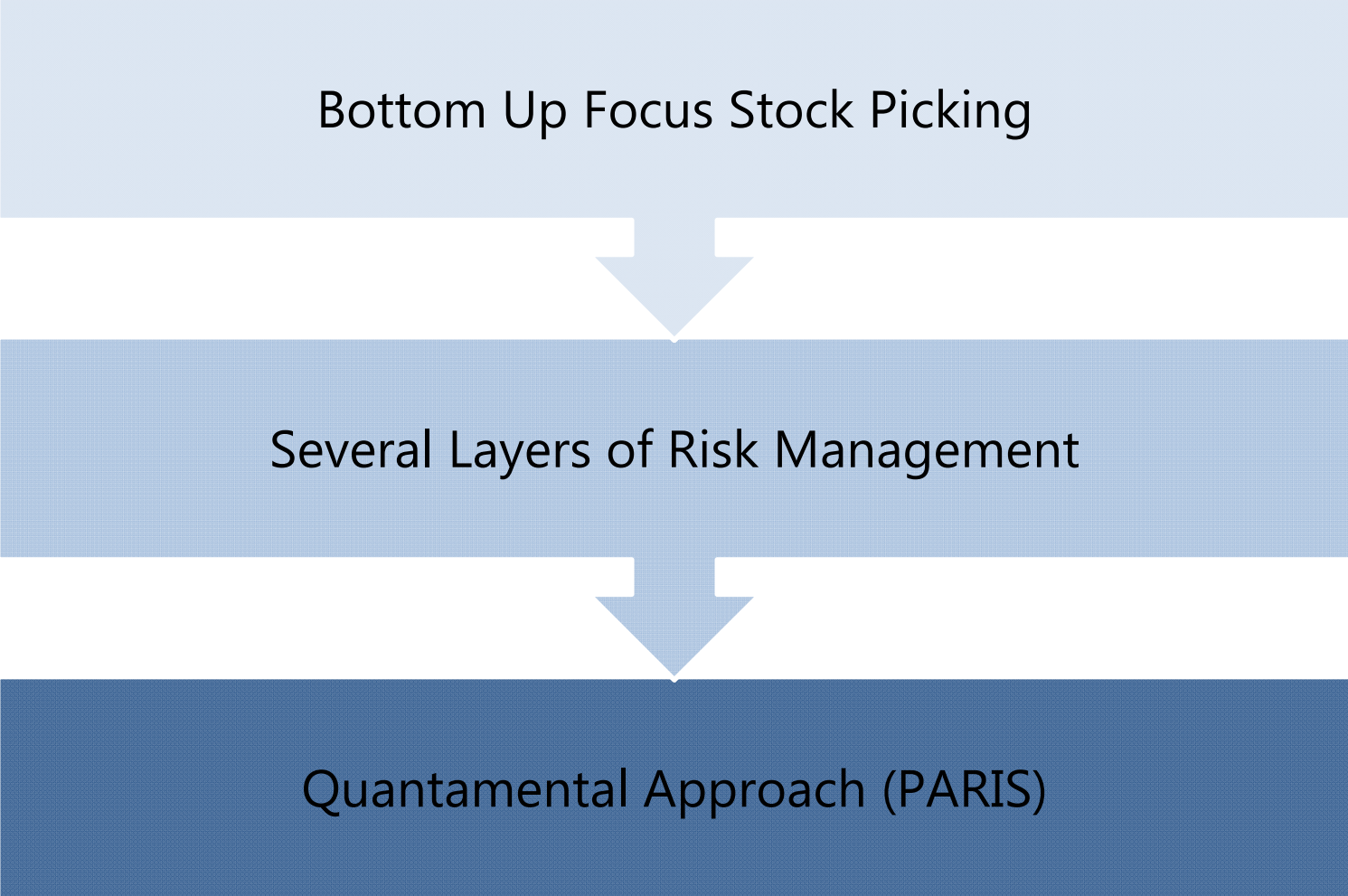
In 2020 ARR Investment Partners was shortlisted in the HFM Performance Awards as one of the best Global L/S Equity hedge funds with AuM under \$500m and a long-term track record. You will find our nominations and interviews here: [www.arrinvestments.com/media](http://www.arrinvestments.com/media)



# Investment Strategy

Investment Process

Bottom Up Focus Stock Picking



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graph TD; A[Bottom Up Focus Stock Picking] --> B[Several Layers of Risk Management]; B --> C[Quantamental Approach (PARIS)];
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Several Layers of Risk Management

Quantamental Approach (PARIS)

# Investment Strategy

Investment Process

## **BOTTOM-UP STOCKPICKING CRITERIA**

### **INVESTMENT PATTERN: DYNAMIC PROFIT GROWTH**

- STRUCTURAL GROWTH OF INDUSTRY
- STRONG REVENUE & EARNINGS GROWTH OF COMPANY
- SUSTAINABLE COMPETITIVE ADVANTAGE
- PROVEN MANAGEMENT TEAM
- STOCK PRICE CORRECTION WHICH IS UNRELATED TO BUSINESS FUNDAMENTALS
- GREAT RISK REWARD OPPORTUNITY





IOT and

Industry 4.0

## **S&T AG (SANT):** Great Risk-Return Opportunity

\* Full Disclosure: ARR is Long S&T AG

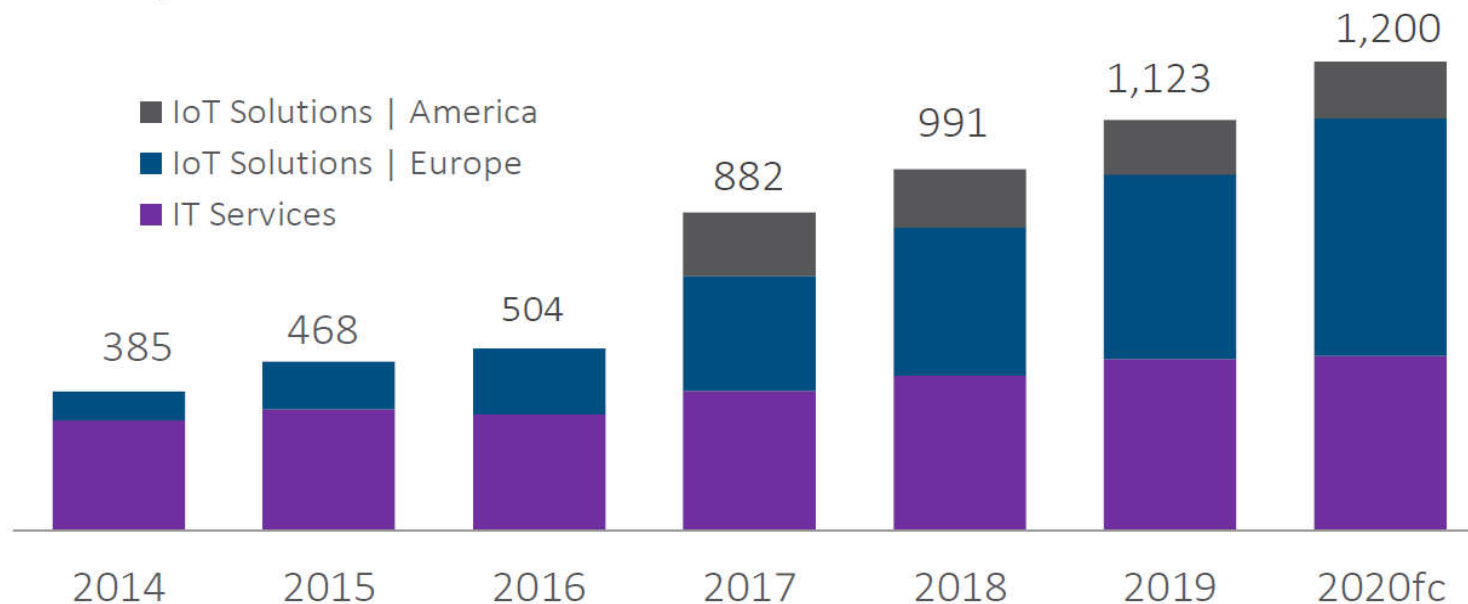


# Business Descriptions

- S&T AG is a leading supplier on the international market for IoT (Internet-of-Things) and Industry 4.0.
- S&T is a one-stop-shop that provides full-stack solutions for clients to upgrade their operating systems, including follow-up maintenance and customisation.
- Sticky clients

## REVENUE

(IN EUR MIO.)



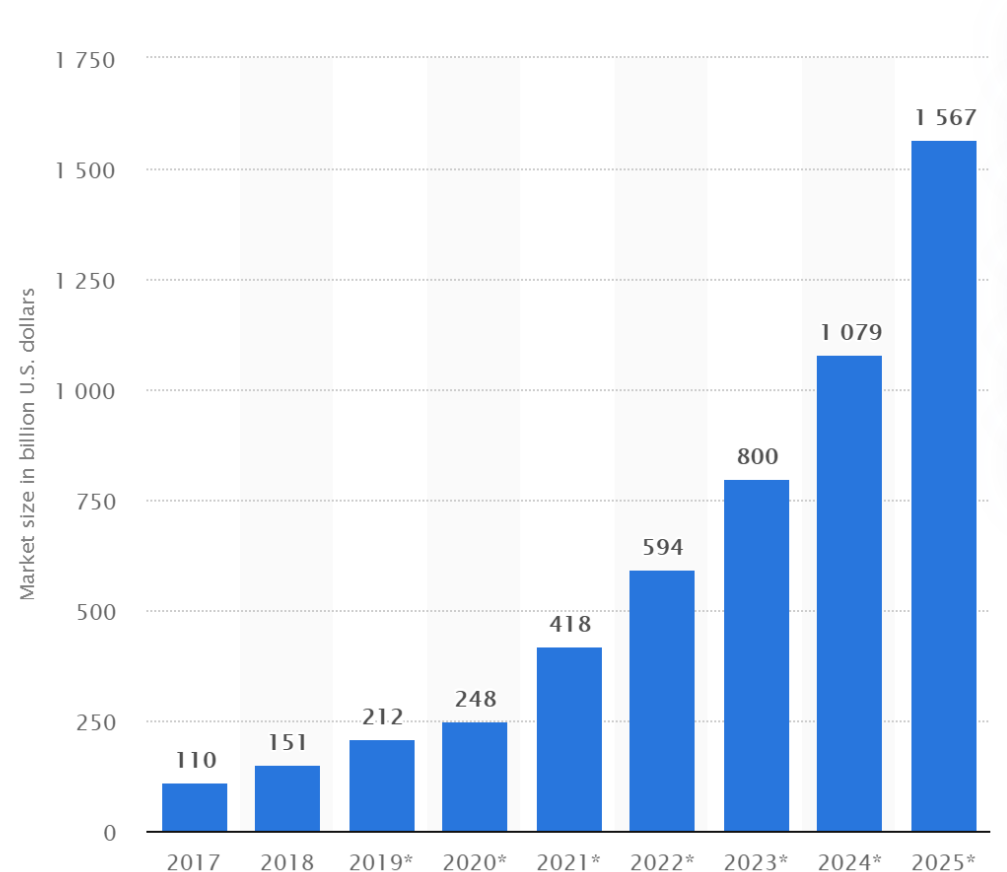
Source: S&T AG presentation; as at Q3 2020



# IoT Industry Trend

- Industry 4.0 concept started from 2010 and has since grown at high teens CAGR
- Currently niche market and expect growth rate to accelerate in next 5 years
- M2M (Machine-to-Machine) connections expected to grow at 30% CAGR between 2018 and 2023 (source: CISCO White Paper 2020)
- Top Strategic Technology Trends for 2021 (Gartner)

Forecast end-user spending on IoT solutions worldwide from 2017 to 2025 (In \$ Billions)



Source: Statista

# S&T IoT Solutions

- S&T focus on Industrial IoT (IIoT)
- Acquired Hardware expert Kontron to provide Motherboards of IoT systems
- Developed SUSiEtec as basis of communication, improved through acquiring automation expert AIS
- Strategic Partnership with Foxconn to explore Asia and European IoT market together



## \*Some of S&T clients:

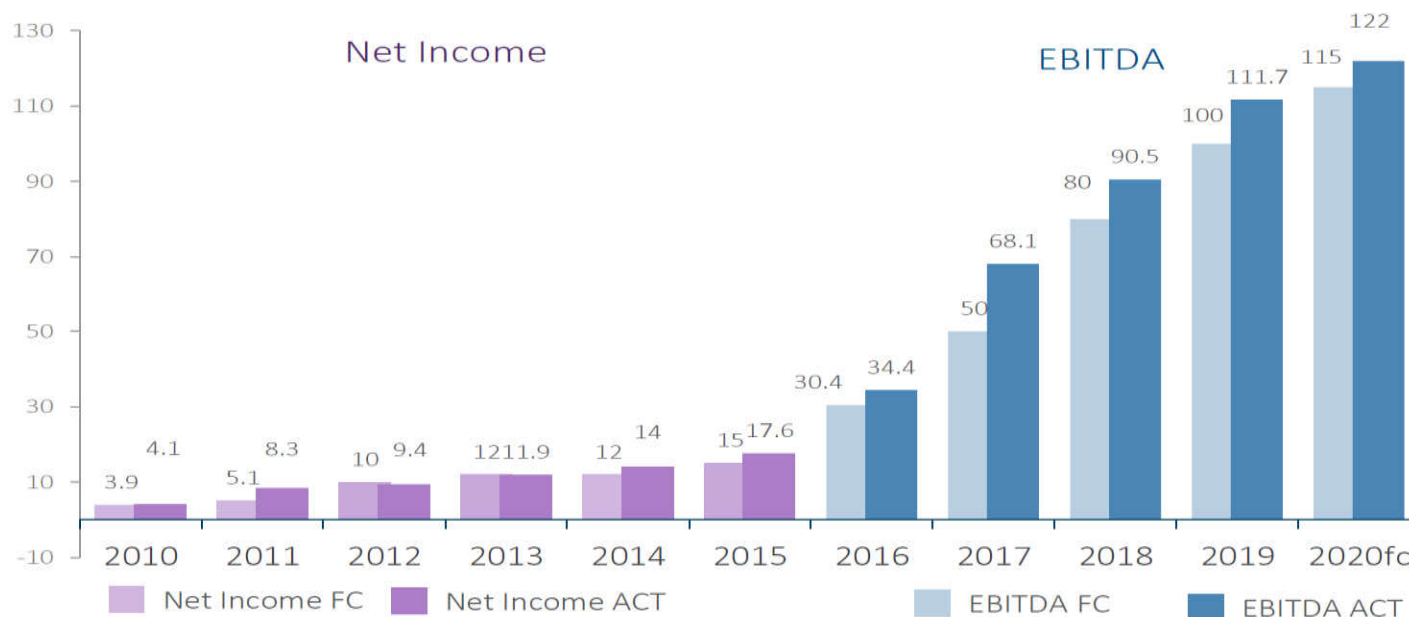


# Non-Cyclical Growth Business

- 47 Consecutive quarters of growing Revenue and EBITDA
- Past 7 years Revenue CAGR 22%, EBITDA Margin grew from 6% to 10%+
- 'Mission Critical' orders compensate for corporate order loss during COVID
- Low or no net debt over past years.

## GUIDANCE TRACK RECORD

In Mio. EUR

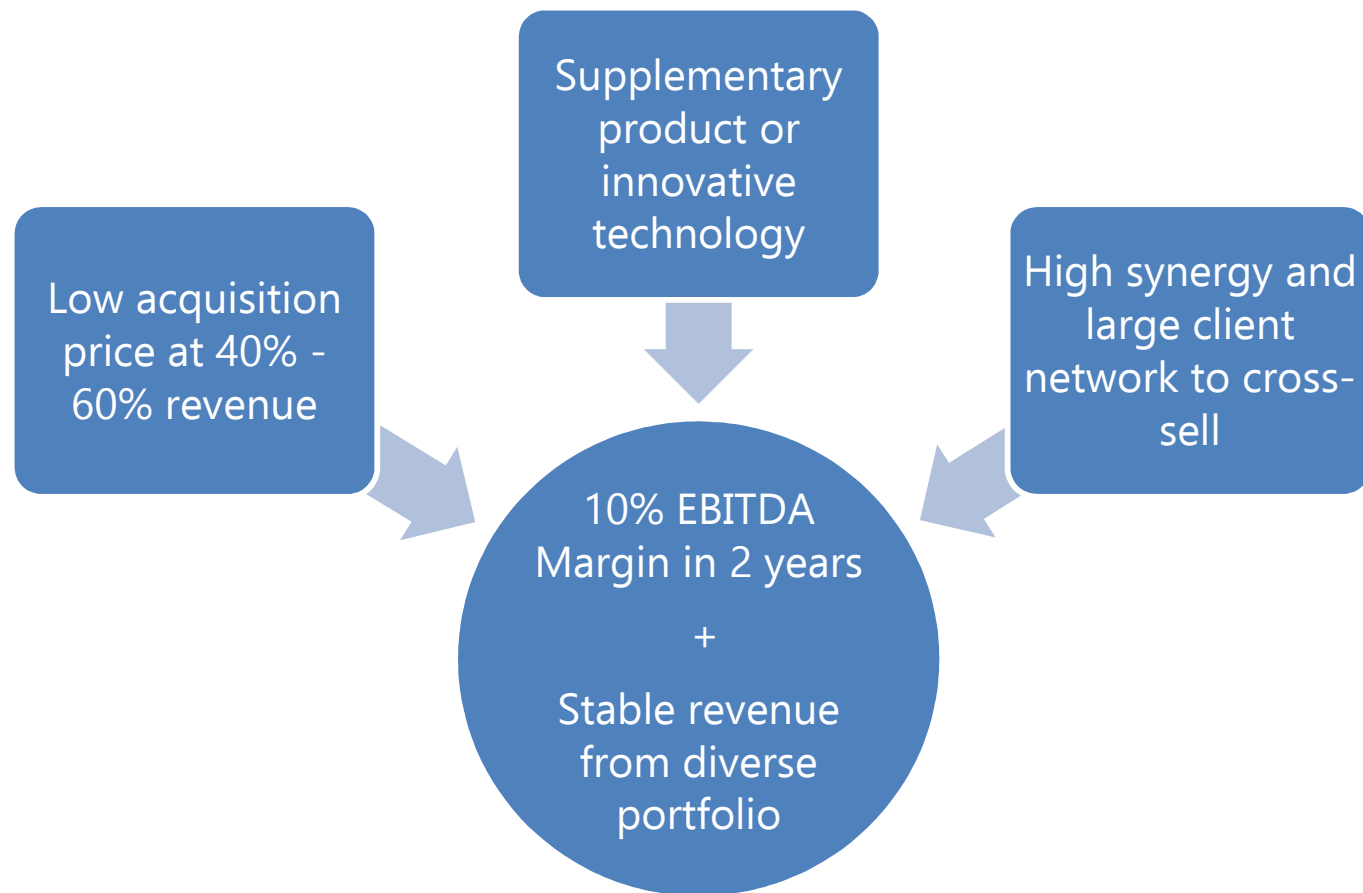


Source: S&T AG presentation; as at Q3 2020



# Acquisition Fuelled Growth

- 'Agenda 2023' targeting 70% revenue growth till 2023, more than half from acquisitions
- Selective criteria and proven track record
- Great opportunities present in COVID-induced discount



# Recent Sell-off for Wrong Reasons: Criticism and Response

## ❑ S&T is disadvantaged because it doesn't have much proprietary technology

S&T has developed compact packages to solve end-to-end communication tasks in many industries. Instead of recruiting their own engineer teams, most corporations trust S&T as a one-stop shop to address their system improvement needs. They are sticky users who rely on S&T's IoT upgrade as well as follow-up maintenance.

## ❑ S&T is exaggerating EBITDA and FCF

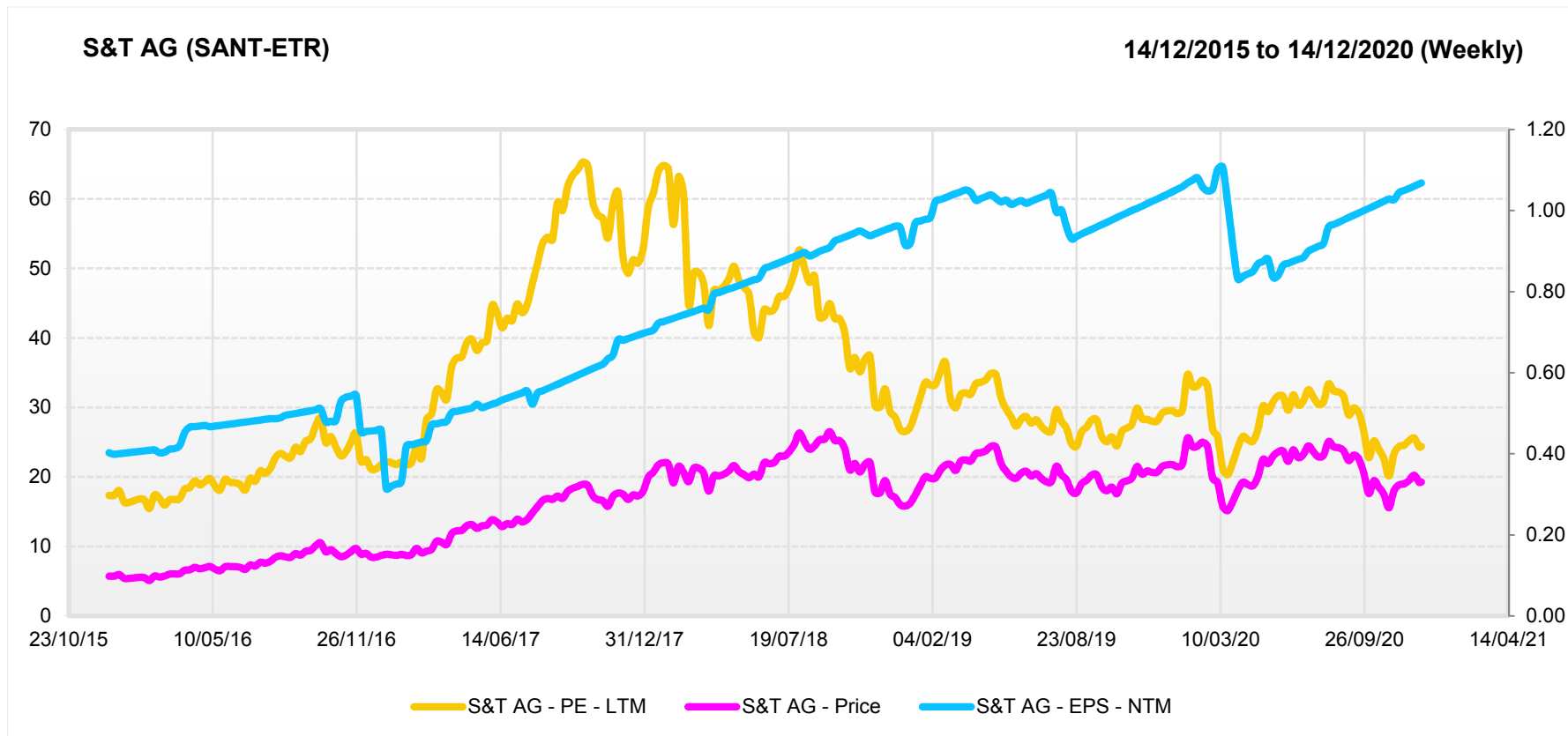
Short-Recommendation was biased and one-sided. For example adjusting for all current asset of acquired firm but not consider any current liability, in order to show a low 'Underlying' FCF.

## ❑ S&T spends all retained earnings on acquisitions

S&T has a successful track record of acquisition and turnaround. With that said, S&T management became aware of S&T's low valuation in Q3 after the criticism. They have set out a plan to reinvest in it's own shares and improve valuation, while still maintaining the 'Agenda 2023' growth targets.

# Asymmetric Risk Return

- Reinvest 50% of profit in share buybacks and dividends
- 'Agenda 2023', grow revenue from €1,2 billion to €2 billion
- Low valuation compared to historical levels
- Management increased holdings recently





# Conclusion

S&T is a good example of dynamic growth stocks we typically invest in:

- Non-Cyclical business with 47 up-quarters and growing margin
- Experienced management team in a prospering industry
- Strong operating and financial conditions
- Being sold-off for a wrong reason

With this type of investment we aim for:

- Low risks because of high intrinsic value, stock buy back, director dealings
- High return potential thanks to industry trend and strong revenue growth