



Quarter 2, 2025

Dear Partner,

Throughout the second quarter of 2025, the fund continued to sell slower-growth firms and purchased durable, faster-growing firms in temporarily depressed sectors, while identifying similar opportunities in new industries. The purchased firms align with our longer-term growth themes of consolidation (serial acquirers), buying from forced sellers, focused on financial compounders, transaction processing, affordable housing finance, distribution, infrastructure spending, and housing construction. We identified and continue to analyze opportunities in the following industries: banks, natural resource royalties, distributors, logistics companies, housing, and specialty finance. New investments have a combined expected growth rate (expected growth rate = return on equity (RoE) \* (1-payout ratio)) plus earnings yield of at least 30 to 40%, a metric of deep value incorporating growth. In consideration of 35% of the portfolio being exposed to cyclical end markets, another characteristic I prioritize is non-cyclical exposure.

As we continue to add faster-growing durable companies to the portfolio, I believe we have the highest quality businesses in the fund's history, with a discount that continues to persist as the market fails to realize the improvement in our firms' positions. I believe high quality is reflected in free cash flow growth with highly recurring revenues (such as in subscription businesses), high free cash flow conversion, and returns on equity that are higher than less-risky alternatives. An example of a high-quality asset with a good price is well-underwritten debt which currently yields total returns in the low-teens.

The Bonhoeffer Fund returned a gain of 8.7% net of fees in the second quarter of 2025. In the same time period, the MSCI World ex-US, a broad-based index, returned a gain of 12.1%, the S&P 500 returned a gain of 10.8% and the DFA International Small Cap Value Fund returned a gain of 16.0%. A US benchmark was added as the fund has increased exposure to the US to greater than 50% over the past few years. As of June 30, 2025, our securities have a weighted average earnings/free cash flow yield of 12.5% and an average EV/EBITDA of 3.2 with 16% growth.

The current Bonhoeffer portfolio has projected earnings/free cash flow growth of about 16%. The DFA International Small Cap Value Fund had an average earnings yield of 10% with 9% growth. The fund's and the indices' multiples are higher than the previous quarter, primarily due to share price increases.

### **Bonhoeffer Fund Portfolio Overview**

Bonhoeffer's investment portfolio consists of deep value-oriented special situations, as well as growth-oriented firms that can compound value over time and have been purchased at a reasonable price. In most cases, we are paying no more than high single-digit multiples of five years forward earning per share (EPS). I am particularly interested in companies in market niches that grow organically and/or through transition or consolidation. I also like to see active capital allocation through opportunistic

buybacks, organic growth and synergistic acquisitions. And importantly, we like to see durability, as measured by increasing recurring revenues, high free cash flow conversion and consistent and growing RoEs in our portfolio companies. There were modest changes within the portfolio in the second quarter, which are in line with our low historical turnover rates.

As of June 30, 2025, our largest country exposures included: United States (62%), Canada (11%), United Kingdom (8%), Latin America (9%) and South Korea (6%). The largest industry exposures included: real estate/infrastructure/finance (58%), distribution (49%), consumer products (10%), and telecom/media (3%). Some industries overlap so the total is greater than 100%.

## **Conclusion**

In the following pages you will find a discussion of the Bonhoeffer portfolio sorted by investment themes, a discussion of the successful use of leverage and a case study of Argent Industrial (ART.JO). As always, if you would like to discuss any of the investment frameworks or specific investments in deeper detail, then please do not hesitate to reach out. I want to thank you for the opportunity to invest by your side and welcome any questions you may have.

Warm Regards,

Keith D. Smith, CFA

## INVESTMENT THEMES\*

### Distribution (49% of Portfolio; Quarterly Performance 6%)

Our holdings in car dealerships and branded capital equipment dealerships, building product distributors and electrical component distributors all fall into the distribution theme. One of the main key performance measures for dealerships is velocity, or inventory turnover. We own some of the highest velocity distributors in markets around the world. Distribution firms include: Builders First Source (“BFS”), Asbury Automotive, Arrow Electronics, Ferrycorp (a Caterpillar dealer), Terravest, and Autohellas.

In our [Q1 2024 letter](#), our case study was our electronic component distributor, Arrow Electronics. Arrow’s model is to modestly grow earnings (5-6% per year) and buy back stock at a rate of 9% per year. A useful tool in evaluating returns on capital is return on incremental invested capital (“ROIIC”) analysis. One way to calculate ROIIC, is to divide the changes in cashflow from operations (CFO) by the capital expenditure and merger and acquisition investment over a given period of time. Below is the calculation of the ROIIC over the past 10 years. Below is the updated ROIIC model for Arrow:

Arrow (US\$, Millions)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	5-yr avg	10-yr avg
													56.5%	17.9%
Capital Invested	484.1	285.4	666	228.8	183.2	449.4	163.9	124.3	60.9	78.8	83.3	87	434.3	2125.6
2-yr sum		769.5	951.4	894.8	412	632.6	613.3	288.2	185.2	139.7	162.1	170.3		
4-yr sum				1664.3	1363.4	1527.4	1025.3	920.8	798.5	427.9	347.3	310		
CFO	622.8	718.6	711.2	748.7	750.9	986.4	722	848	1358.6	1651.2	1041.8	502	245.2	380.8
2yr change			88.4	30.1	39.7	237.7	-28.9	-138.4	636.6	803.2	-316.8	-1149.2		
4yr change					128.1	267.8	10.8	99.3	607.7	664.8	319.8	-346		
2-yr ROIIC		0.0%	9.3%	3.4%	9.6%	37.6%	-4.7%	-48.0%	343.7%	574.9%	-195.4%	-674.8%	0.1%	5.6%
4-yr ROIIC					9.4%	17.5%	1.1%	10.8%	76.1%	155.4%	92.1%	-111.6%	44.5%	31.3%
Equity	4185	4159	4195	4466	4998	5376	4866	5149	5341	5611	5877	5878		
RoE	1.4%	10.4%	0.2%	13.8%	11.7%	9.1%	12.2%	14.1%	24.3%	28.0%	16.3%	7.1%	17.9%	13.7%
3-yr average CFO to account for cyclicity														

Given the cyclicity of Arrow’s earnings, it is better to look at the longer-term average ROIICs and averages. First, the changes in CFOs used to calculate the ROIIC is based upon 3-yr average CFOs. Second, in this case, the 5-yr average FCF/Equity is 18% and 4-year average ROIIC is 45%.

\*There are some overlapping themes thus the total percentage of the portfolio is greater than 100%.

As to forward estimates of growth and earnings below is the estimated growth to 2029 with declining growth after 2028. This results in a 5-year EPS growth rate of 27% higher than the past 5-year growth rate and higher than the 10-year growth rate. The rationale for the higher growth rate than the 10-year growth rate is recovery from cyclical lows, share buybacks, and increases in component demand from AI and internet of things. Below is an updated 5-year DCF for Arrow Electronics:

Arrow (US\$, Millions)														
				EPS Growth		27.3%								
	2021	2022	2023	2024	2025	2026	2027	2028	2029	\$126.50	3.96	5-yr fwd PE	5% growth PE	
										9.6%	10.40	Earnings/FCF Yield	16.5	
Revs	\$34,477	\$37,124	\$33,107	\$27,923	\$30,397	\$32,067	\$33,920	\$35,500	\$37,000					
		8%	-11%	-16%	9%	5%	6%	5%	4%			6% organic growth		
												2% Operation Lev		
NI	\$1,137	\$1,465	\$977	\$567	\$538	\$730	\$941	\$1,065	\$1,184			9% Repurchase	Future SP	\$527.27
	3.3%	3.9%	3.0%	2.0%	1.8%	2.3%	2.8%	3.0%	3.2%			17% Total EPS growth	IRR	33%
EPS	\$16.70	\$24.70	\$13.52	\$11.67	\$12.16	\$18.14	\$25.69	\$31.96	\$39.04					
		48%	-45%	-14%	4%	49%	42%	24%	22%			History	EPS GR Rate	
Buyback												5	15%	
9% /year	68.1	59.3	54.4	48.6	44.2	40.2	36.6	33.3	30.3			10	13%	

Under the assumptions of recovery from the cyclical lows and increased demand from AI and internet of things, as shown above, the 2029 EPS will rise to \$39 per share. With these growth rates, multiples should increase to 16.5x from the current multiple of about 10x. This results in a value of about \$530/share range and an IRR of 33%.

### Real Estate/Construction/Finance (58% of Portfolio; Quarterly Performance 1%)

Our current construction holdings (in US and UK through Builders First Source and Vistry, respectively) should do well as governments worldwide incentivize infrastructure programs, and new construction continues to replenish the housing deficit in the US and the UK. Financing of low-income real estate development as well as growth in small business lending (via small business administration (“SBA”)) and the buying of forced loans from forced sellers from mergers and acquisition as well as the FDIC, are themes driving growth in our bank holdings (FFB Bancorp (“FFB”), United Bancorp of Alabama (“UBAB”) and Northeast Bank (“NB”)). We are looking for banks with sustainable RoEs and EPS growth rates higher than 15% that are selling for single-digit multiples and have decent underwriting. This is a growth rate equal to two times the price/earnings multiple. We continue to find banks that meet these criteria. An example is Mission Bancorp, whose investment thesis was laid out in [last quarter’s case study](#).

UBAB continues to grow (6% annual loan growth) and is deploying excess capital from the ECIP program to buybacks (7% annual buyback rate), increasing affordable housing loans and an ongoing examination of acquisition candidates. Non-performing loans have declined to 1.4% from 1.8% last quarter. UBAB has provisions of 1.4% of loans. UBAB continues to generate decent non-interest income of 25% of net interest income and non-interest deposits of 40% of total deposits.

NB is growing its SBA loan book as well as buying orphan loans (whose growth is lumpy) from sellers resulting in 37% annual loan growth. Orphan loans are loans that are being disposed of by banks either due to acquisitions (from Federal Trade Commission actions) or due to financial distress (from Federal Deposit Insurance Corporation actions). These forced sales can lead to advantageous pricing. NB’s originated loans have been increasing by about 30% per year over the past year while purchased loans

have made up the difference. NB's SBA loan growth has been impacted by the Trump Administration's changes to the SBA loan criteria. Management expects that once the SBA criteria are adjusted, its SBA loan levels will return to expected growth. Banking M&A is picking up which should increase the purchased loan targets for NB. Non-performing loans increased slightly to 0.93% of loans. NB has loan loss provisions of 1.2% of loans.

FFB received a consent order in January associated with its higher risk third-party ISO transaction processing customers. The consent order allows FFB to repurchase common stock and allow continued on-boarding of low and moderate risk transaction processing customers. The estimated financial impact of the consent order is a loss of about \$10 million (or \$3-\$4 per share) based upon the loss of processing fees and low-cost deposits over the next 12 months and additional compliance costs. Offsetting this will be higher interest from loan growth (\$9 million in net interest income (assuming LTM loan growth of 13% and the current net interest margin)), processing fee growth from existing customers (\$0.7 million (assuming LTM processing income growth of 10%)) and the reduction of "one-time" compliance costs of \$4 million. FFB has loan growth is 13% annually with non-performing loans (excluding SBA guaranteed loans) and loan loss provisions of 1.5% of loans.

### **Public Leverage Buyouts (LBOs) (31% of Portfolio; Quarterly Performance 15%)**

Our building products distributors and dealerships, telecom services, and consumer products fall into this category. One trend we find particularly compelling in these firms is growth creation through acquisitions, which provide synergies and operational leverage associated with vertical and horizontal consolidation. The increased cash flow from acquisitions and subsequent synergies are used to repay the debt and repurchase stock and the process is repeated. This strategy's effectiveness is dependent upon a spread between borrowing, interest rates and the cash returns from the core business and acquisitions. Over the past few months, long-term interest rates have been declining and short-term rates are expected to follow, so a large and growing spread is available to firms like Terravest, who have a high return on capital. One way to measure future expected returns are post-synergy cash flow ratios paid for acquisitions. Another way to measure future growth on expected returns is through RoIC.

Many of our holdings used the acquisition/buyback model described above. Some of these firms have also used modest leverage to magnify the returns of equity to 20% and above over the past five to ten years. These firms include: Terravest, Asbury Automotive, Autohellas and Builders First Source. In addition, many of these firms are buying back stock and the modest current valuations make these buybacks accretive.

BFS is an example of an interesting public leveraged buyout ("LBO"). BFS is a consolidator of building products distributors and select building products, namely trusses, millwork and pre-assembled housing components. BFS utilizes its distribution relationships to sell its building products. BFS' operations are local businesses which have local economies of scale that BFS' can utilize to generate above average returns on capital. BFS is the largest building products distributor in the US, and has the largest scale advantages illustrated by having the highest EBITDA margins and inventory turns amongst their competitors. BFS uses its software to design structures and facilitate distribution of building products. BFS is dependent upon single family home (SFH) construction and to a lesser extent multi-family home (MFH) construction. With both of these segments either slowing down (SFH) or halting new construction

(MFH), the near-term outlook is not too good. Higher interest rates have caused much of this slowdown. The current administration is seeking to lower interest rates and sees lower interest rates as beneficial to them and their agenda. If their efforts are successful, lower interest rates should be a tailwind for construction and BFS in the future.

Recently, BFS had a management change as the CEO became the chairman and the CFO moved into the CEO role. The former chairman has retained his shares. BFS has advanced the furthest in terms of truss automation compared to other truss manufacturers. BFS management has also stated that the M&A pipeline is strong.

Brad Jacobs, a successful CEO in businesses that implement automation, has taken an interest in building products distribution through his firm, QXO, Inc. QXO recently purchased a building products distributor, Beacon Roofing (BECN) and bid on another building products distributor, GMS Inc.

Below is the calculation of the RoIC over the past 10 years. As can be seen from the RoIC analysis, BFS' RoE and RoIC has increased over the past five to ten years. The BMC acquisition will further increase BFS's RoE.

Builders FirstSource Millions of US\$	ProBuild Acquisition										BMC Merger				5-yr total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	34.7%	
Capital Invested	12.7	12.46	94.79	1512.5	38.4	59.4	96.6	198.9	136.2	1344.6	957.5	669	703	3810.3	
2-yr sum			107.25	1607.29	1550.9	97.8	156	295.5	335.1	1480.8	2302.1	1626.5	1372		
4-yr sum					1658.15	1705.09	1706.9	393.3	491.1	1776.3	2637.2	3107.3	3674.1		
CFO	-32.7	13.9	19	72.6	192.6	263.5	369.4	396.2	477.6	2264.7	3254.5	2032	1717	1320.8	
2yr change			51.7	58.7	173.6	190.9	176.8	132.7	108.2	1868.5	2776.9	-232.7	-1537.5		
4yr change					225.3	249.6	350.4	323.6	285	2001.2	2885.1	1635.8	1239.4		
														5-yr avg	
2-yr ROIC			48.2%	3.7%	11.2%	195.2%	113.3%	44.9%	32.3%	126.2%	120.6%	-14.3%	-112.1%	30.5%	
4-yr ROIC					13.6%	14.6%	20.5%	82.3%	58.0%	112.7%	109.4%	52.6%	33.7%	73.3%	
Net Income	-54.45	-42.37	18.15	-22.80	144.30	38.80	205.20	221.80	313.50	1752.40	2749.40	1540.60	1077.90		
Equity	48.00	15.40	40.20	149.20	309.60	376.20	596.30	824.95	1152.98	4802.50	4962.60	4732.40	4296.50		
RoE	-113.4%	-275.1%	45.1%	-15.3%	46.6%	10.3%	34.4%	26.9%	27.2%	36.5%	55.4%	32.6%	25.1%	35.3%	

Below is an updated 5-yr Discounted Cash Flow (DCF) valuation for BFS:

Builder's First Source (NYSE:BLDR) Millions of US\$	FCF Gr Rate 32%													
	2021	2022	2023	2024	2025	2026	2027	2028	2029	\$127.00	5.030138	5-yr fwd PE	10% growth PE	
Revs	\$19,894	\$22,726	\$17,097	\$16,400	\$15,327	\$17,200	\$18,920	\$20,812	\$22,893	6.6%	15.0414	Earnings/FCF Yield	22.5	20
		14%	-25%	-4%	-7%	12%	10%	10%	10%			4% Organic growth		
												5% M&A		
FCF	\$2,051	\$3,270	\$1,877	\$1,506	\$914	\$1,200	\$1,415	\$1,660	\$1,941			7% Operational leverage		
	10.3%	14.4%	11.0%	9.2%	6.0%	7.0%	7.5%	8.0%	8.5%			6% Repurchases		
												22% EPS Growth		
FCF/Share	\$ 11.41	\$ 23.55	\$ 15.40	\$ 13.23	\$ 8.44	\$ 11.78	\$ 14.96	\$ 19.24	\$ 25.25				Future SP	\$ 504.96
		106%	-35%	-14%	-36%	40%	27%	29%	31%				IRR	31.8%
										Shares	110.5	\$14,034		
% BB	85%	138.9	121.9	113.8	108.3	101.9	94.6	86.3	76.9					

The key assumptions in this DCF include an increase in operating margin from operating leverage as revenues rebound with a SFH construction recovery and about a 7% of market cap buyback. The 7% buyback represents 85% of projected income in-line with historical buybacks as a percentage of net

income. These assumptions result in a low thirties EPS growth rate due to cyclical recovery as well as share repurchase over the next five years, a \$505 per share value and a 32% IRR.

### **Compound Mispricings (15% of Portfolio; Quarterly Performance 10%)**

Our Korean preferred stocks, Asian real estate, and Vistry investments all feature characteristics of compound mispricings. The thesis for the closing of the voting, nonvoting, holding company and multiple business valuation gap includes evidence of better governance and liquidity and the decline or sale of the legacy business. Investments in our compound mispricing theme frequently benefit from corporate actions (spinoffs, asset sales, share buybacks), holding company transactions, and growth in cash flow.

Vistry has had a challenging start to the year missing revenue and income targets along with high long-term UK interest rates. These factors have led to a steep decline in the share price this year. Offsetting the rate increase are announcements of government support for affordable housing goals, which is the focus of Vistry's development efforts going forward. Management still intends to meet the previously announced revenue and income goals but on a delayed timeline.

### **Telecom/Transaction Processing (3% of Portfolio; Quarterly Performance 24%)**

The increasing use of transaction processing in the markets of our respective firms, as well as the rollout of fiberoptic and 5G networks, is providing growth opportunities within this theme. Given that most of these firms are holding companies and have multiple components of value (including real estate), the timeline for realization may be longer than for more mono-industry-focused firms.

Millicom ("TIGO") is one of the remaining telecom firms in the portfolio. TIGO retains favorable market conditions, including operating in many two-player markets or in markets where the number of participants is getting smaller. With fewer players, telco firms can recover pricing power to offset the increasing cost of network construction and operations. In Columbia, one of its key markets, a large player has entered bankruptcy which will reduce the number of market players further, and Millicom is in negotiations to buy the assets of this firm.

Millicom has sold its tower unit, Lati, to SBA Communications and continues to implement cost cuts identified by the new CEO and team that was put in place by a large shareholder, Xavier Niel. In addition, Millicom has announced a \$3/yr dividend which is currently yielding over 6% (down from 10% when announced) at the current stock price. Based upon the recently released financials, Millicom is selling for a FCF yield of 9%. Earnings have grown by 10%/year over the past five years and are expected to grow by 15%/year over the next five years. Niel has executed tender offers for Millicom shares (the latest of which was \$25.75 per share), which has increased his stake in Millicom to 40%. Given Mr. Niel's interest in purchasing 100% of TIGO, I felt the upside may have been capped but underestimated the appreciation of the shares despite this risk. Going forward, the share price should continue to appreciate to reflect the good performance and capital allocation.

### **Consumer Product (3% of Portfolio; Quarterly Performance 8%)**

Our consumer product retailing and beverage firms comprise this category. The defensive nature of these firms can lead to better-than-average performance. One theme I have been examining is the development of category-killer retail franchises. These firms have developed local franchises which have higher inventory turnovers, margins, and sales per square foot than competitors. These factors result in great unit economics and high returns on incremental invested capital. They also have some unique characteristics, including specialty niches (such as tire stores or athletic shoes) or offering something the competitors will not (such as selling hunting supplies).

Academy has been a long-time holding for Bonhoeffer. The firm has underperformed management expectations of reaching \$10 billion in revenue and \$1 billion in net income by 2028. Academy did well during COVID, as middle-class consumers received money from the Federal government transfer payments. However, as the world settled into a new post pandemic normal, Academy Sports customers likely found themselves with less time for recreation and less disposable income for spending on recreational items generating headwinds for Academy and other discount retailers. Academy's EPS has declined by 18% from its peak in 2022. In the last quarter, revenue has increased year-over-year but EPS declined. In my opinion, this is the end of the declines in revenues and EPS so retaining it in the portfolio makes sense at today's prices.

## STORIES OF SUCCESSFUL USE OF LEVERAGE

A number of famous investors who have generated above average returns have utilized leverage meaningfully to accomplish favorable results. Warren Buffett has used leverage in two contexts. First, Buffett uses insurance float to finance Berkshire's equity portfolio along with the wholly owned businesses. Berkshire's float has financed 26% of Berkshire's equity in operating businesses and its investment portfolio with a cost of -3.3% per year (given that Berkshire has had an average combined ratio (the insurance loss ratio plus its expense ratio) of 96.6%) over the last 20 years.

Second, Buffett has levered his Japan holding companies. These firms have an average current earnings yield of 8.7%. The firms have been levered at about 50% of market value. Interest rates in Japan is currently about 90bp. The resulting current return is 12.6% ( $1.5 \times 8.7\% - .5 \times 0.9\%$ ). The five-year forward earnings yield for these firms is 10.8%. The return 5-yr forward based upon today's prices and projected earnings yield is 15.8% ( $1.5 \times 10.8\% - .5 \times 0.5\%$ ).

Fairfax Financial, similarly, has levered its equity via insurance float equal to 160% of its equity. The average float has financed 160% of Fairfax's equity in operating businesses and its investment portfolio with a cost of -2.1% per year. Fairfax's equity is associated with both operating businesses and an investment portfolio similar to Berkshire's. Historically, Fairfax has generated 7.7% per year return on its investment portfolio. Assuming the float generated a 2% return per year, then the total after-tax return on book value would be 17% on book value ( $(1 - 25\%) \times (7.7\% \times 2.6 + 1.6 \times 2\%)$ ). Fairfax's target return on equity is 15% per year.

Shelby Davis, an investor who generated 23% per year returns over 50 years, has invested in growing insurance and financial firms at low multiples (mid-single digit earnings multiples – 20-25% earnings yield) as well as using leverage over a long period of time. Mr. Davis utilized both internal leverage (from his insurance and financial services firm holdings) as well as external leverage from margin loans. Davis started a brokerage firm, so he was able to borrow at rates close to the Federal Funds rate. He used from 33% to 100% leverage (with rates of 1.0% to 4.0% from 1947 to 1963) on cheap and growing insurance companies. It is interesting that both Buffett (via float and leverage on Japanese hold cos) and Davis used leverage in roughly the same levels (around 50%) on their equity investments. Davis' insurance companies increased in value from increases in earnings (about 8x over 15 years or about 15% per year), had multiple expansion of about 3x (about 8% per year) and leverage of average of about 50%.<sup>1</sup>

In essence, these investors fund growing income producing assets with low cost of funds. In looking for investment opportunities in financial services, specifically banks and insurance firms, there are opportunities where firms can generate or obtain low cost of funds to finance higher return investments. Examples in our portfolio include our community banks, FFB, NB, UBAB and Mission Bancorp.

Another market segment of financials where one can find compounders that use leverage (via float) is insurance. Especially interesting are insurance firms that use a dual approach of generating negative/low cost float via low combined ratio underwriting to invest in high returning assets. Berkshire is the best known example of this type of insurance compounder, having generated 13% annual returns over the

---

<sup>1</sup> Based upon data from [The Davis Dynasty](#), John Rothchild, 2001

past 15 years using this strategy. Fairfax, described above, is another example generating 11% annual returns over the past 15 years. Other, less well-known compounders include Arch Capital that generated 17% annual returns over the past 15 years and W.R. Berkley that also generated 17% returns over the past 15 years. Other overseas examples include Tokio Marine Holdings that generated 13% per year over the past 15 years and Meritz Financial that generated 24% returns over the past 10 years as a public company.

## **CASE STUDY: ARGENT INDUSTRIAL (ART.JO)**

Argent Industrial is a steel design and manufacturing firm providing branded products and components and distribution services for consumer and commercial customers. Argent's products include: residential and industrial security products, adjustable louvre shutters, South African braais and fireplaces, ladders, scaffolds and wheel casters, mining supplies, products cuts from steel, gates, railings and fences, overhead cranes, industrial doors and components, fuel storage and transfer equipment, aircraft fueling systems, material handling equipment, accommodation containers, train speed control systems, and electric plane refueling systems. These products are sold in South Africa, the UK, US and Canada. Argent also provides concrete and aggregates, owns many of its properties and distributes steel and aluminum products in South Africa. Argent is a collection of firms competing with smaller private businesses or divisions of large firms in niche markets described above. The common theme amongst these businesses is metal bending for high value-add applications.

Management strategically acquires businesses in direct negotiation with primarily family-owned sellers or out of distress for about 5.5x after-tax income. By the time the business is integrated, 1.5x of net income is realized from inherent synergies. In many instances, the families that own these businesses continue to manage these businesses. The business acquisitions are financed primarily by cash or debt which is paid down from cash flow generated from the acquired firms. Over the past ten years, management has acquired fourteen firms. The acquired firms from 2016 to 2024 have ranged in size from R10 to R29 million (1 US\$ = R17.5) in net income with an average net income of about R16 million. The size of the firm targeted is below the size of most private equity firms' interest, so the competition is less than it would be for larger deals. The members of the board focus on acquisitions.

Argent has four levers for cash flow growth: 1) buying a firm in their core or adjacent market; 2) expanding within existing markets; 3) paying down debt; and 4) distributing excess cash as dividends or buying back shares. The acquired firms generate cash flows in excess of what is needed to modestly grow the firm, which is used to purchase firms in its target or adjacent markets. If no firms can be found that meet management's operational and valuation criteria, then management will buy back shares as the shares have typically traded at modest valuations reflecting organic growth but not the value of future acquisitions. Management is very selective in the firms they acquire. With a full pipeline of deal opportunities, management expects to spend 75% of its cash flow to either buy firms, pay down debt, or buy back shares. The remaining 25% will be invested in its current business, including growth opportunities.

Argent historically was an integrated branded steel product firm operating in South Africa. Over time, Argent acquired firms aligned with the integrated branded steel product strategy. In 2018, a new large shareholder and board member changed the strategy to focusing on overseas (UK, Canada and US) expansion and divesting South African only firms. From 2016 to 2024, Argent paid R347 million for firms.

Most of the competitors in the target markets are smaller, privately held businesses. The board is focused on acquisitions and has developed a network of private owners of core market firms as potential acquisition candidates. Subsequent to the management change in 2018, Argent has made four acquisitions in its core markets and increased CFO before working capital from R122 million to R331 million—a 18% CAGR. The post-synergy price of these acquisitions has ranged from 3.5x to 5x after-tax

free cash flow.<sup>2</sup> The resulting unlevered RoIC (see calculation below) has been around 33%, which includes returns from both organic growth initiatives and acquisitions. The business sectors in which Argent competes are subject to economies of scale from related products and have route density characteristics due to shipping costs.

## Industry Segments

Argent competes in the manufactured branded steel products and distribution markets in South Africa, United Kingdom, Canada and the United States. These businesses have been purchased over the years by Argent's management. The company is a market share leading participant in niche branded steel products markets. In addition, Argent provides steel and metal distribution services in South Africa. In FY2025, Argent generated 80% of revenues and 95% of profit in the steel products segments and 20% of revenues and 5% of the profits in metal distribution.

Sources of growth for Argent include organic and acquisition growth in the brand steel products and distribution segments. Organic growth in these segments is expected to be 3% annual growth rate<sup>3</sup> with any other growth coming from identified growth projects, acquisitions (the largest portion of growth historically), or share repurchases.

Argent operations have become better over time, as a new large shareholder implemented a value-added acquisition strategy utilizing economies of scope and production density. The return on equity has increased from 6.8% in FY2012, to 13.9% in FY2024. The drivers included increases in net income margins from 6.4% in FY2012, to 7.1% in FY2024, and increases in fixed asset turnover from 2.1x in FY2012, to 4.4x in FY2024. Leverage also declined from 2.3x, to -0.8x EBITDA.

The incremental return on invested capital over the past five years is close to 36%, which has increased Argent's RoE over the previous five years. See the calculations below.

Argent Industrial Millions of R	2012	2013	2014	2015	2016	2017	New Shareholder 2018	2019	2020	2021	2022	2023	2024	5-yr 31.5%	10-yr 35.6%
Capital Invested	69.1	41.1	-2.2	-27	87.5	18.1	159.7	21.2	58.7	96.9	44.8	29.7	226	456.1	715.6
2-yr sum			38.9	-29.2	60.5	105.6	177.8	180.9	79.9	155.6	141.7	74.5	255.7	32.3%	36.4%
4-yr sum					99.4	76.4	238.3	286.5	257.7	336.5	221.6	230.1	397.4		
CFO	132.6	40.4	75.9	101.9	110.7	81.8	122.1	140.8	187.2	252.5	318.8	321.8	331	143.8	255.1
2yr change			-56.7	61.5	34.8	-20.1	11.4	59	65.1	111.7	131.6	69.3	12.2		
4yr change					-21.9	41.4	46.2	38.9	76.5	170.7	196.7	181	143.8		
2-yr ROIIC			-145.8%	-210.6%	57.5%	-19.0%	6.4%	32.6%	81.5%	71.8%	92.9%	93.0%	4.8%	68.8%	
4-yr ROIIC					-22.0%	54.2%	19.4%	13.6%	29.7%	50.7%	88.8%	78.7%	36.2%	56.8%	
Equity less excess cash	1359	1147	1161	1199	1238	978	1032	1048	1133	1277	1513	1522	1728		
RoE	4.7%	-0.1%	6.7%	11.0%	5.3%	6.5%	3.9%	11.4%	14.9%	15.8%	18.1%	19.2%	14.1%	16.4%	

## Downside Protection

Argent's risks include both operational leverage and financial leverage. Operational leverage in the branded steel product market is based upon the fixed vs. variable costs of the operations. There are some

<sup>2</sup> Based upon estimates from management

<sup>3</sup> Based upon management's estimated long-term growth rate for annual impairment test

moderate economies of scope in terms of related product development and economies of scale in raw material purchasing.

Financial leverage can be measured by the net debt/EBITDA ratio. Argent has below-average net debt/EBITDA of -0.8 versus other metal fabricating industrials like Trinity, Worthington, and Chart and versus Argent's history. The history and projected financial performance for Argent is illustrated below:

Income Statement   TIKR.cc	New Board Member																5-yr growth	5-yr forward
	3/31/2015	3/31/2016	3/31/2017	3/31/2018	3/31/2019	3/31/2020	3/31/2021	3/31/2022	3/31/2023	3/31/2024	3/31/2025	3/31/2026	3/31/2027	3/31/2028	3/31/2029			
Total Revenues	1,791.16	1,706.92	1,849.13	1,828.41	1,721.58	1,727.72	1,965.96	2,432.70	2,459.36	2,544.22	2,635.64	2,899.20	3,189.12	3,508.04	3,858.84	4,244.72	8.8%	10%
% Change YoY	-4.70%	-4.70%	8.30%	-1.10%	-5.80%	0.40%	13.80%	23.70%	1.10%	3.50%	3.60%	10.00%	10.00%	10.00%	10.00%	10.00%		
Operating Income	71.92	92.01	107.88	-192.07	119.69	133.38	188.66	263.39	286.15	323.88	366.35	434.88	510.26	596.37	694.59	806.50	22.4%	17%
% Change YoY	-19.10%	27.90%	17.20%	-278.00%	162.30%	11.40%	41.40%	39.60%	8.60%	13.20%	13.10%							
% Operating Margins	4.00%	5.40%	5.80%	-10.50%	7.00%	7.70%	9.60%	10.80%	11.60%	12.70%	13.90%	15.00%	16.00%	17.00%	18.00%	19.00%		
Net Income	26.09	55.1	61.76	-184.19	83.76	96.22	130.36	190.21	230.52	244.92	270.02							
Net Income to Common Inc	26.09	55.1	61.76	-184.19	83.76	96.22	130.36	190.21	230.52	244.92	270.02	319.12	374.44	437.62	509.70	591.82	22.9%	17%
% Net Income to Common	1.50%	3.20%	3.30%	-10.10%	4.90%	5.60%	6.60%	7.80%	9.40%	9.60%	10.20%	11.01%	11.74%	12.47%	13.21%	13.94%		
Net Income to Common Ex:	26.09	55.1	61.76	-184.19	83.76	96.22	130.36	190.21	230.52	244.92	270.02							
% Net Income to Common	1.50%	3.20%	3.30%	-10.10%	4.90%	5.60%	6.60%	7.80%	9.40%	9.60%	10.20%							
<b>Supplementary Data:</b>																		
Diluted EPS Excl Extra Items	0.28	0.6	0.68	-2.05	1.01	1.3	2.16	3.25	4.11	4.42	4.96	6.24	7.79	9.68	11.99	14.82	30.7%	24%
% Change YoY	113.50%	111.10%	13.10%	-401.80%	149.30%	28.60%	66.00%	50.60%	26.40%	7.40%	12.30%	25.75%	24.82%	24.34%	23.90%	23.52%		
Weighted Average Diluted Sh	91.67	91.62	90.82	89.78	82.74	73.95	60.36	58.48	56.05	55.42	54.43	51.16	48.09	45.21	42.50	39.95		
% Change YoY	0.10%	-0.10%	-0.90%	-1.10%	-7.80%	-10.60%	-18.40%	-3.10%	-4.10%	-1.10%	-1.80%	-6.00%	-6.00%	-6.00%	-6.00%	-6.00%		
Book Value	1160.72	1198.86	1238.15	978.53	1032.62	1047.48	1133.41	1277.4	1512.99	1721.91	1927.91	2167.25	2448.08	2776.29	3158.57	3602.43		
Book Value/Share	12.662	13.085	13.633	10.899	12.480	14.165	18.778	21.843	26.994	31.070	35.420	42.359	50.902	61.411	74.326	90.182	20.1%	21%
% Increase		3.34%	4.19%	-20.05%	14.51%	13.50%	32.57%	16.33%	23.58%	15.10%	14.00%	19.59%	20.17%	20.65%	21.03%	21.33%		
Return on Equity	2.21%	4.59%	4.99%	-18.81%	8.09%	9.18%	11.50%	14.88%	15.23%	14.23%	14.00%	14.72%	15.30%	15.76%	16.14%	16.43%		
Dividends Per Share	0.170	0.180	0.210	0.200	0.000	0.000	0.000	0.420	0.950	1.150	1.270	1.559	1.946	2.420	2.999	3.704		

## Management and Incentives

Argent's management team has developed a merger and acquisition (M&A) engine and operationally efficient firms in profitable niches of the material fabricating industry. They perform M&A when targets are available at the right price partially financed by debt, pay down debt, and return capital via buybacks when there are not opportunities to invest organically or via M&A.

The base compensation for the management team (top three executive directors) is roughly the same amount of R3.4 to R4.0 million per year. The CEO and executive director have the highest total compensation, R14.3 million collectively, primarily due to their base salary, performance-based compensation and share-based compensation. Over the past three years, their total compensation was about R22 million per year, about 9% of net income per year. The CEO and executive director currently hold 3.51 million shares and options (6% of shares outstanding worth R98.2 million), which is more than 6.9 times their 2025 salaries and bonuses of R14.3 million. The CEO's compensation is structured to include a R4.1 million base pay and a R3.7 million performance bonus. Non-options-based incentive compensation for the executive team is set and approved annually by the board of directors.

Board members have a significant investment in Argent. The board owns about 8% of total shares outstanding. No option grants were made over the past three years.

## Valuation

Valuation		Sensitivity Table			
				Price	Upside
Current Earnings	R6.24				
7-year Expected EPS Growth Rate	15.0%		-2.1%	R27.00	0.0%
Historical EPS Growth Rate	23%		5.0%	R115.44	327.6%
Current AAA Bond Rate	4.3%	<b>Growth Rate</b>	10.0%	R177.84	558.7%
Implied Graham Multiplier *	38.50		15.0%	R240.24	789.8%
Implied Value	R240.13		20.0%	R302.64	1020.9%
Current Price	R27.00		25.0%	R365.04	1252.0%
* (2*Growth Rate + 8.5)					

The key to the valuation of Argent is the expected growth rate. The current valuation implies an earnings/FCF increase of -2.1% in perpetuity using the Graham formula  $((8.5 + 2g))$ . The historical 10-year earnings growth has been 23% per year including acquisitions and the current return on equity of 16%.

A bottom-up analysis based upon market growth rates of Argent's markets, branded metal products and distribution was used to estimate an organic growth rate of 5% for Argent (8% for the metal product segment historically and -2% for the distribution segment historically). This estimate is also based upon the revenue growth assumption for the 2025 goodwill impairment and the historical five-year organic revenue growth rate of 4.5%. This does not include any future acquisitions. If we include 5% growth for acquisitions, then the base revenue growth rate is 10%. Incorporating operational leverage results in 17% EPS growth rate. Historically, Argent's EPS growth rate was 23% per year including six acquisitions over 10 years. If we assume an increasing number of acquisitions (per management discussions) over the next seven years and a forward incremental return on equity in the twenties, lower than the historical RoIC, forward EPS growth rate of 17% per year is conservative. Using a 15% expected growth rate, the resulting current multiple is 39x of earnings, while Argent trades at an earnings multiple of 5x. If we look at metal bending comparables, which are larger but have slower growth prospects, they have an average earnings multiple of 16x. If we apply 16x earnings to Argent's estimated FY2026 earnings of R6.24, then we arrive at a value of R100 per share, which is a reasonable short-term target. If we use a 15% seven-year growth rate, then we arrive at a value of R240.24 per share. This results in a five-year IRR of 55%.

## Growth Framework

Argent Industrial (JSE:ART)												
(Million of R)												
										EPS Growth 25.5%		
										R27.00		
										18%		
										1.75 5-yr fwd PE		
										5.44 Earnings/FCF Yield		
Revs	R2,433	R2,459	R2,544	R2,636	R2,899	R3,189	R3,508	R4,245				
		1%	3%	4%	10%	10%	10%	10%				
NI	R190	R231	R245	R270	R319	R374	R438	R592				
	7.8%	9.4%	9.6%	10.2%	8.9%	11.7%	12.2%	13.2%				
EPS	R3.25	R4.11	R4.42	R4.96	R6.20	R7.67	R9.44	R15.44				
		26%	7%	12%	25%	24%	23%	33%				
Buyback										History	Gr Rate	IRR
	58.48	56.05	55.42	54.43	51.46	48.83	46.36	38.34		5	31%	
	33%	0.00	2.43	0.63	2.97	2.63	2.47	2.41	2.79	10	33%	Gr Rate

Another way to look at growth and the valuation of companies is to estimate the EPS five years into the future and see how much of today's price incorporates this growth. Using the same revenue growth rate described above results in a 2030 EPS of R15.44, or 1.8x the current price. If we assume a steady-state growth rate from 2030 on of 5%, then this results in a fair value Graham multiple of 13.5x or R208.44 per share, similar to the five-year-forward valuation above of R240.24 per share.

## Comparables and Benchmarking

Below are branded steel product firms. Most of Argent's competitors are private firms. Compared to these firms, Argent has debt on the low end of the range and has better growth prospects and a below-average multiple. Argent also has decent RoEs and the highest five-year growth rates.

Argent Comparable Firm Analysis										
	Price	Book Value	Earnings	FA Turns	EBITA Margin	5-yr EPS Growth	RoE	P/E	Debt/EBITDA	EBITDA Int Coverage
Carpenter Technology	254.59	37.77	9.50	2.10	18.3%	19.5%	25.1%	26.8	0.57	13.73
Steel Dynamics	122	59.51	10.96	2.32	11.3%	23.5%	18.4%	11.1	1.05	44.20
TerraVest Industries	157.51	21.67	7.16	3.61	16.2%	21.5%	33.0%	22.0	1.45	7.50
Blue Scope Steel	23.43	32.54	1.47	2.49	8.0%	-1.1%	4.5%	15.9	Neg	N/A
Worthington Industries	63.32	19.02	3.53	4.28	5.6%	6.4%	18.5%	18.0	3.00	52.20
<b>Argent Industrial</b>	<b>27.76</b>	<b>34.70</b>	<b>4.96</b>	<b>0.92</b>	<b>13.9%</b>	<b>30.7%</b>	<b>14.3%</b>	<b>5.6</b>	<b>Neg</b>	<b>N/A</b>

## Risks

The primary risks are:

- slower-than-expected acquisition growth;
- lower-than-expected growth in Argent's end markets; and
- a lack of new investment opportunities (mergers and acquisitions) coupled with higher stock prices making buybacks less accretive.

## **Potential Upside/Catalyst**

The primary catalysts are:

- higher-than-expected acquisition growth;
- faster growth in Argent's end markets; and
- increased local scope or purchase of local scale in new markets.

## **Timeline/Investment Horizon**

The short-term target is R100 per share, which is almost 270% above today's stock price. If the continued acquisition/consolidation thesis plays out over the next five years (with a resulting 15% earnings per year growth rate), then a value of R240 (midpoint of the two methods described above) could be realized. This is a 55% IRR over the next five years.

## **Disclaimer**

*This letter does not contain all the information that is material to a prospective investor in the Bonhoeffer Fund, L.P. (the "Fund").*

*Not an Offer: The information set forth in this letter is being made available to generally describe the philosophies of the Fund. The letter does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to accredited investors by means of delivery of a confidential private placement memorandum, or other similar materials that contain a description of material terms relating to such investment. The information published and the opinions expressed herein are provided for informational purposes only.*

*No Advice: Nothing contained herein constitutes financial, legal, tax, or other advice. The Fund makes no representation that the information and opinions expressed herein are accurate, complete or current. The information contained herein is current as of the date hereof but may become outdated or change.*

*Risks: An investment in the Fund is speculative due to a variety of risks and considerations as detailed in the Confidential Private Placement Memorandum of the Fund, and this letter is qualified in its entirety by the more complete information contained therein and in the related subscription materials.*

*No Recommendation: The mention of or reference to specific companies, strategies or instruments in this letter should not be interpreted as a recommendation or opinion that you should make any purchase or sale or participate in any transaction.*