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Value Investor INSIGHT

The Leading Authority on Value Investing

From the Ground Up

Sprott Inc.'s Whitney George, John Ciampaglia, John Hathaway, Matthew Haynes and Per Jander explain the key global macroeconomic shifts that have prompted them to broaden and deepen their focus on real-asset investing and describe why they're finding upside today in Sprott Uranium Miners ETF, Equinox Gold, Schnitzer Steel and Marcus & Millichap.

INVESTOR INSIGHT

Whitney George
Sprott Inc.

Investment Focus: Through a range of products – active and passive, ETFs and funds – provides investors broad exposure to precious metals and mining.

After an extended period in the wilderness, the precious-metal and natural-resource areas in which Toronto-based Sprott Inc. specializes have seen considerably higher investor interest over the past year. Now with more than $21 billion in assets under management, the company under new CEO Whitney George is positioning itself as the go-to expert for investors looking for exposure to commodities and commodity-related equities.

We spoke recently with George and colleagues John Ciampaglia, John Hathaway, Matthew Haynes and Per Jander about the firm's evolution, the macro trends on which they're looking to capitalize, and specific opportunities they see today in precious metals, uranium, "energy-transition" materials and steel.

Whitney, since joining Sprott in 2015 you've gone from portfolio manager, to president, to CEO starting last summer. Describe how the company has evolved over that time.

Whitney George: I knew Sprott from my time as a portfolio manager at Royce & Associates. I bought my first shares in it in the fall of 2008 because I'm a big fan of the asset management business and I wanted exposure to hard assets, specifically precious metals, which was and is Sprott's specialty.

When I left Royce in 2014, and before I joined Sprott, I started buying the shares for my personal account because I saw it as a real contrarian opportunity. Interest in precious metals was low but the company had built significant expertise and unique products in the space and I felt precious metals and mining were destined to come back into favor. I'd had success over time investing in asset managers – I love the operating leverage without the financial leverage – and this was one I found particularly compelling.

Once I joined Sprott it became increasingly clear to me that rather than diversify as it was doing, primarily in the Canadian mutual fund business, the best path forward was to split the traditional fund business off and focus exclusively on building the company's metals and mining franchise.

The split from the Canadian fund business happened in 2017 and we've since taken a number of important steps to double-down on precious metals and commodities. We bought the old Central Fund of Canada and converted it to the publicly traded Sprott Physical Gold & Silver Trust [CEF]. We bought Tocqueville Asset Management's gold and precious metals active-equity business run by John Hathaway, one of the true pioneers in precious-metals investing.

Last year we diversified into uranium in buying Uranium Participation Trust, which is now Sprott Physical Uranium Trust [Toronto: UUT], as well as in buying the rights to what is now the Sprott Uranium Miners ETF [URNM]. We also have created de novo products, one of the most important of which is a separate-accounts Sprott Energy Transition Materials strategy, which we launched in July of last year.

As of our latest reported quarter, we had $21 billion in assets, more than triple the $6 billion we had when we separated the businesses in 2017. Around 75% of that is in five exchange-listed trusts that hold physical assets – in AUM order: gold, gold and silver, silver, uranium, and platinum and palladium. That business can scale quickly, at very high incremental margins, and we think can become much larger than it is today. In general, we want to offer a breadth of options – physical assets vs. equities, active vs. passive – that allow institutional and individual investors to get exposure to hard assets. Until the last year or so that has been an area that's seen underinvestment for 15 to 20 years. We think we're in a good position – which is unmatched competitively – for the macroeconomic environment ahead.

Describe why you think the macroeconomic environment will work to your benefit.

WG: There are two big themes going on that we believe are fundamental shifts. One is the reversal of globalization, which is likely to mean more competition for raw materials as the world moves from more of a just-in-time approach to those materials' supply to more of a just-in-case approach. Mother nature put raw materials in both friendly and inconvenient places. As the security of supply takes on greater importance – hit home in the aftermath of Russia's invasion of Ukraine – we would expect the overall level of competition for that supply to increase.

The second fundamental shift involves global energy policies. Decarbonization initiatives are going to require an enormous amount of mined material. In many cases, chronic underinvestment in supply capacity and the difficulty and time required to bring material in mines to production indicates to us that it will be a long cycle where supply is not keeping up with demand, putting dramatic upward pressure on prices for many materials.

We think all this sets us up for a commodity supercycle, where we'll need real price responses to enable the production of all the material – copper, nickel, lithium, silver, uranium and others – that is going to be needed. We don't believe many of the policy goals that have been set are achievable without that.

Sprott's business response to that has been to expand the investment options it offers related to those broad themes. Describe some of those.

John Ciampaglia: I would start with our acquisition of Uranium Participation in mid-2021. We already managed a number of commodity funds of one kind or another, and we thought the market for uranium was particularly dislocated and needed to come back into equilibrium. In other words, we saw it as a really good value opportunity. It was a critical mineral used to produce 20% of the electricity in the U.S. and 10% of electricity globally, and we believed – a more contrarian view at the time than it is now – that nuclear energy had a very important role to play in meeting the decarbonization goals being set by policymakers around the world.

At the time uranium was trading at about $28 per pound, a price that was insufficient for some of even the highest-grade mines to keep operating. How could you have the highest-grade mines on care and maintenance for years with such a critical mineral? In our mind the market was eventually going to have to reset itself, with positive investment implications for both physical uranium and related uranium equities.

As we started telling our story about uranium, we found that many people were looking at this thematic in a much more holistic way, really around the broader concept of energy transition. That led to our developing the Energy Transition Materials strategy to invest in companies involved in the exploration, production, distribution or recycling of metals and raw materials that are essential to the transition to a less-carbon-intensive economy. The strategy launched in July of last year and we're also looking at additional ETF opportunities in the space as well.

Just to reinforce what Whitney said earlier, we're expecting a multi-decade transition where there's going to be increasing and necessary investment in energy infrastructure, generation, transmission, storage and security. That's going to require massive amounts of raw materials, in many cases multiples of what's required today. We want to provide a range of options to invest against all that as people see fit.

Drilling down on a couple commodities in particular, talk about the general investment case for copper-related equities.

JC: Copper is a good representative example. It's a critical input needed almost across the board for energy-transition applications such as wind energy, solar energy, hydroelectric energy and thermal renewable energy. It's essential for electricity generation and transmission. Renewable energy systems require 5-7x the amount of copper versus traditional designs, and electric vehicles require close to 3x the amount of copper compared with gasoline-powered cars.

At the same time, inventory levels for copper – and almost all industrial metals – are critically low due to a decade of supply

Whitney George

Taking the Lead

Value investors often seek in management teams certain traits they hope to exhibit themselves. Financial discipline. A focus on returns. A willingness to be greedy when others are fearful and fearful when others are greedy.

Whitney George is taking that concept to the next level. The one-time co-chief investment officer at small-cap heavyweight Royce & Associates, he joined specialty investment firm Sprott Inc. in 2015, was named its President in 2019, and took over as CEO in June of last year. During his time at Sprott, the firm has broadened and deepened its focus on precious-metal and natural-resource investing.

"At Royce when the Internet bubble was building and no one cared about small-cap value investing, we doubled down on that and were very well positioned when small-cap value came back as strongly as it did," says George. "I saw the same type of opportunity at Sprott in precious metals and natural resources and had some ideas for how to reorient the firm's assets and culture to take advantage of that. I didn't really set out to be a CEO, but I like interesting projects with a contrarian bent. For a value investor, that's often how opportunities present themselves."

underinvestment followed by further Covid-induced restrictions on development and various supply-chain issues. Copper is still clearly going to be subject to market-price volatility, but supply for a long time is unlikely to meet what should be a significant increase in global demand. From both volume and price, we expect the best upstream companies in the industry to be long-term beneficiaries of that.

One brief example I'd give would be First Quantum Minerals [Toronto: FM]. It's one of the largest global copper producers with annual production of about 800,000 tons, on a growth path to reach at least 1,000,000 tons through already committed brownfield projects. We think the company is well-run, is committed to managing its balance sheet prudently, and has a track record of delivering on construction timelines and budgets. It's also focused on meeting a significant portion of its own power needs through renewable power sources. The share price [now around C$30.35] can be volatile related to short-term moves in copper prices and to regulatory issues from time to time in countries in which they operate, but we would generally consider those to be an opportunity given our long-term outlook for copper.

Update your investment case for uranium.

Per Jander: It starts with the fact that nuclear energy is highly reliable and efficient compared to other forms of electricity generation and is the cleanest energy source based on CO2-equivalent emissions per gigawatt hour produced.

Starting with the United Nations climate-change conference in 2021, known as COP26, nuclear energy has been more formally allowed back into the conversation as an important energy source. That's particularly the case with baseload electricity as the world moves toward net-zero emissions and there is a heightened emphasis – especially following the start of the war in Ukraine – on energy security. That has already led to a significant number of announcements for nuclear power plant restarts, life extensions and new builds. Estimates put the demand for electricity growing by 40% over the next 20 years, so even if nuclear maintains its 10% share of the market we're going to see significant expansion of nuclear generating capacity. We argue that the growth will be much higher than that as nuclear takes market share. That all speaks to high growth in long-term demand for uranium.

The uranium price has increased from the $28 per pound John mentioned earlier, but after getting above $60 in April of last year, it's now around $50 per pound. That is still below incentive levels to restart what would be considered tier-2 production, let alone greenfield development. Uranium is not that scarce, but the question is more whether it's profitable to mine or not. Without significantly increased prices we don't think there's any way supply can meet the increased demand we're going to see.

One important thing to add with nuclear is the actual cost of the fuel relative to the total cost of generating power. In a natural-gas power station, something like 70% of the operating cost is the natural gas to run it. In a nuclear power station, the cost of the uranium to fuel it is less than 5% of the total operating cost. That means customers are much less price sensitive – there's a lot of room for price increases without demand being negatively impacted.

The challenge to nuclear power has long rested on safety concerns. Isn't that still an important barrier to demand?

INVESTMENT SNAPSHOT

Sprott Uranium Miners ETF
(NYSE: URNM)

Business: Exchange-traded fund providing equity exposure to uranium by investing at least 80% of assets in securities found in the North Shore Global Uranium Mining Index.

Share Information (@1/30/23):

Price	**37.20**
52-Week Range	27.00 – 47.42
Distribution Yield	13.0%
Net Assets	$954.9 million

Top 10 Holdings
(@1/30/23):

Company	% Owned
Cameco	14.6%
NAC Kazatomprom	13.9%
Sprott Physical Uranium Trust	13.3%
Denison Mines	5.4%
NexGen Energy	5.3%
Energy Fuels	5.1%
Paladin Energy	4.9%
Uranium Energy	4.4%
CGN Mining	4.3%
Yellow Cake	4.2%

URNM PRICE HISTORY

THE BOTTOM LINE

Nuclear energy has been more formally allowed back into the conversation as an important provider of baseload power and as a necessary component to meeting global decarbonization goals, says Per Jander. Meeting increased demand for uranium will require higher uranium prices to stimulate supply, benefitting miners leveraged to that price.

Sources: Company reports, other publicly available information

PJ: Not in my view. There are very rational arguments supporting the safety of nuclear power. If you look over time at the amount of deaths per kilowatt hour produced against other energy sources, nuclear is as safe as any and much safer than most. Coal power has killed hundreds of thousands due to the emissions it produces. Even with high-profile accidents like Three Mile Island, costly as it was to lose a reactor, nobody got hurt. With the Fukushima disaster in Japan 20,000 people died due to the tsunami, but no one died from exposure to the radiation released. There have never been any accidents involving nuclear waste.

In context, we see safety as more of an argument for nuclear rather than against it. Some will never agree, of course, but the receptivity to arguments in favor of nuclear is changing. When you're talking now with policy makers, with investors, and even with the general public in Europe feeling the pain of higher energy prices, more people are listening.

In addition to offering investors exposure to physical uranium, you also have a passively managed uranium miners' ETF. Why take that approach?

JC: If you look at all the publicly traded uranium-mining companies in the world, there are maybe eighty of them, with a total market cap of around $30 billion. Of the eighty, only two – Cameco [CCJ] and Kazatomprom [London: KAP] – are producing today at scale. That makes most everyone else a development or exploration company.

The sector in the process of recapitalizing, so we think it makes a lot more sense to spread the bets around rather than try to pinpoint the winning individual producers who are going to create the most value leveraged to the uranium price.

Let's talk about gold, starting with why it didn't serve as quite the inflation hedge many thought it would in 2022.

John Hathaway: I thought 2022 would turn out to be a better year than it did. Gold made a new high in the first half of the year, driven largely by the inflation headlines. But then the narrative became that the Fed was going to stamp out inflation by aggressively hiking interest rates, which in turn strengthened the dollar. Rightly or wrongly, a strong dollar often negatively impacts the prices of gold and gold-related stocks. That's what happened in the second half of the year. I would point out, however, that the gold price for the year ended up roughly flat, while gold miners were down 8-9%. Not great, but fairly good on both fronts relative to the S&P 500, which had its worst year since the financial crisis in 2008.

ON GOLD SUPPLY:

Even with $2,500 gold, you would not see a meaningful increase in production that would dampen the price.

How would you characterize the investment prospects in the sector today?

JH: The first point I'd make is that we don't believe inflation has been defeated. It is moderating, but I think there's a fair case to be made that the Federal Reserve will not see its inflation fight through because the negative impact on the economy will be too severe. If the Fed reverses course, and the government continues to spend money like crazy, we'll be back where we started in terms of building inflationary pressures. If you own gold and gold-related stocks as a risk mitigator in the event of monetary disorder – which is my primary argument – I believe the case for that today is as strong as ever.

The market in recent months seems to be sniffing that out, which has led to the gold price increasing above $1,900, within knocking distance of a new all-time high. Despite that, sentiment overall toward the space is still extremely weak and investor interest is still extremely low.

If you look at supply and demand in terms of the physical metal, what you have basically is a Mexican standoff – modest incremental growth in demand is pretty much matched by mine supply that creeps ahead bit by bit. I would add, though, that the gold-mining industry overall is depleting reserves and there would be no quick supply response if gold prices moved materially higher. Projects that would move the needle would costs billions of dollars and entail onerous and expensive approval processes. My view is that even with $2,500 gold, you would not see for a very long time a meaningful increase in annual gold production that would materially dampen the price.

What's the general case for gold-miner stocks in the type of environment you're describing?

JH: In the initial phases of an uprise in the gold price, you typically get more bang for your buck in mining stocks over the physical metal. Globally today it costs $1,250 to $1,350 to produce an ounce of gold, so miners are generating pre-tax margins per ounce of $550 or more. If the gold price goes from $1,900 to $2,200, a 16% increase, the margin for miners goes from $550 to $850, a 55% increase. You don't have to hypothesize a dramatic increase in the gold price or a big swing in sentiment to the sector to imagine gold miners outperforming the physical metal by 2-3x over the medium term.

In terms of valuation, gold-mining stocks today trade near a 35-year low versus the price of gold bullion. They trade at a valuation discount to the S&P 500 despite higher profitability and lower leverage than the average S&P company. They also on average offer a 100-basis-point higher dividend yield than the S&P 500, which typically has not been the case.

Among gold equities, what types of ideas are you finding most attractive today?

JH: In general, we find smaller companies available at better prices than the bigger-cap names like Newmont [NEM], Barrick [GOLD], Newcrest Mining [Sydney: NCM] and Agnico Eagle Mines [AEM]. These bigger-cap names are not uninteresting, but tend more to be safer placeholders for the margin play I described.

Today we're finding more upside in companies with the opportunity to significantly increase production, offering growth potential in what isn't in general a growth industry. One good example of that would be I-80 Gold [IAUX], which was put together by Ewan Downie, a highly regarded industry veteran who with the company has assembled a variety of basically castoff assets in Nevada – one of the most favorable jurisdictions in the world – and is having a great deal of success at the drill bit. There's a legitimate path for the company to ramp gold production from the current very small base to something like 300,000 ounces annually within three to four years.

The stock today trades at about $2.70, and we don't think it's a stretch if they hit their production targets that that could double. That's without any expectation of increased gold prices, and without upside from some pretty interesting base-metal discoveries they've made at one of the Nevada sites. Both of those provide additional optionality on the upside.

Describe your broader investment case for another on-the-rise producer, Equinox Gold [Toronto: EQX].

JH: The Chairman and driving force here is Ross Beaty, a geologist by training who is a legend as a serial entrepreneur in the business. He puts his money where his mouth is and is honest and smart, a combination you don't see as often in this industry as I'd like.

Equinox is also kind of a cobbled-together collection of assets. It has seven producing gold mines, in the U.S., Mexico and Brazil, and one significant mine under construction in Canada, called Greenstone, that it expects to be the cornerstone of the company going forward. The story here is production growth as well. From today's roughly 300,000 ounces the company has a clear plan to achieve more than one million ounces in annual production over the next four to five years.

We think there are two primary issues today weighing on the stock. One is the mine in Mexico, Los Filos, which is a good asset but has given them heartburn with work stoppages and threatened negative regulatory and tax changes. In a perfect world they'd be spending more money to make Los Filos a much bigger mine, but they've been unable to do that for the time being because of the current dynamic in the jurisdiction.

The second issue is around Greenstone, the game-changer for the company as it ramps up to production, which is expected to come online some time in the first half of next year. This is a joint venture – 60%-owned by Equinox – with the well-regarded gold merchant-banking firm Orion. Total production in the first year is estimated to be 400,000 ounces, with estimated all-in sustaining costs of about $850 per ounce.

Greenstone has a bad rap because the sell-side seems convinced the company is going to need to raise more money for it to come online. We just don't think that's the case. They're roughly two-thirds of the way through the construction process,

INVESTMENT SNAPSHOT

Equinox Gold
(NYSE: EQX)

Business: Gold miner with seven operating mines – in California, Mexico and Brazil – and with four expansion projects, at existing locations as well as a new site in Canada.

Share Information (@1/30/23):

Price	**4.53**
52-Week Range	2.35 – 9.07
Dividend Yield	0.0%
Market Cap	$1.85 million

Financials (TTM)

Revenue	$1.07 billion
Operating Profit Margin	7.5%
Net Profit Margin	(-1.8%)

Valuation Metrics
(@1/30/23):

	EQX	S&P 500
P/E (TTM)	n/a	19.7
Forward P/E (Est.)	65.5	18.3

Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
Van Eck Associates	9.5%
Vanguard Group	2.8%
Kopernik Global Inv	2.8%
Sprott Asset Mgmt	1.9%
Invesco	1.5%

Short Interest (as of 1/15/23):

Shares Short/Float	n/a

EQX PRICE HISTORY

THE BOTTOM LINE

The key issues weighing on the company's stock – fear that it may need to raise more equity to fund its growth pipeline and concern about political issues at a key Mexican mine – aren't valid or can be fixed, says John Hathaway. In his base case assuming current gold prices and that production targets are met, he believes the shares could double.

Sources: Company reports, other publicly available information

which is on schedule and hasn't had any material cost overruns. At today's gold price they're making plenty of money elsewhere to fund the remaining build-out. Even if gold prices decline, we think they have the assets they need to fund the growth pipeline.

Which then comes back to Los Filos. Again, it's a good asset, just a headache. Ross Beaty has a history of thinking creatively, and I would imagine once they get Greenstone up and running he'll find a solution to diffuse the Los Filos headline risk. Maybe he'll spin it out, or sell all or part of it to a more Mexican-centric group. Whatever the path taken, we think there's a good chance the value realized from it is higher than the market is currently pricing in.

The shares, as high as $13 in mid-2020, currently trade at around $4.50. What upside do you see from here?

JH: Equinox was one of the worst-performing stocks in the metals and mining sector last year, for the reasons we just discussed that I think aren't valid or can be fixed. When Greenstone starts producing they'll have a flagship asset that is world-class, changing the production profile and shifting the geopolitical balance favorably away from Los Filos. Our base case assumes current gold prices and that they hit their production targets, which we think could result in the shares getting back to the $9 or so at which they traded last April. With a little joy in gold prices and an improvement in the optics around Los Filos, the $13 price of a few years ago is certainly within reach.

It's not that important to the overall thesis, but it's worth mentioning that Equinox is the largest shareholder in I-80 Gold, holding about 25% of the stock. The market value of that position is around $175 million. Again, it doesn't make or break the case, but it's a nice option on the upside.

We wanted to ask you about cryptocurrencies, the arguments for which as an asset class are not dissimilar to those of gold.

JH: The rationale for crypto in many ways is similar, and I do think when it was flying high that it took smoke out of the room for gold. I don't have numbers, but I imagine that was particularly the case for people under 40.

I wouldn't give up on cryptocurrencies, despite the amount of capital that's been destroyed for the latecomers to it. Whichever way it goes as an asset class, however, I don't really expect that to have much impact on the investment case for gold. Even despite disappointing last year, gold held up very well. We don't think the argument for it today hinges at all on what people are doing in crypto.

ON STRATEGY:

We think we're in a good position – which is unmatched competitively – for the macroeconomic environment ahead.

Sprott Focus Trust, a portfolio Whitney brought with him when he left Royce, is somewhat of an anomaly at Sprott given it's a more traditional value equity fund. Moving away somewhat from metals and mining, can you describe an idea or two in this strategy that particularly interests you today?

Matthew Haynes: We have a few key biases with the Focus Trust strategy. One is that we're absolute-value oriented, targeting stocks trading at 7-8x operating income, or a mid-teens cap rate on enterprise value. Given that absolute-value orientation, we've had to be very patient because the market at times may not offer up many opportunities. That patience has paid off over time.

The strategy also leads to different types of exposures at different points in time. Where we've been most active in recent years has been more in cyclical businesses. Some of the seeds we planted years ago in such companies have finally started to grow into decent-sized trees. In certain cases we're harvesting some gains. In others we think the story still has a lot of room to run.

Would steel in general, and Schnitzer Steel [Nasdaq: SCHN] in particular, be good examples of the latter?

MH: Yes, there are a couple things going on in steel that interest us. Demand will always be cyclical, but we see long-term structural drivers that are positive for steel. Legislation in the United States is promoting infrastructure spending. There are structural tailwinds around non-residential construction of things like warehouses and data centers. Aging infrastructure from the mid-20th century is old and needs to be replaced. On the energy-transition front, low-carbon technologies are generally acknowledged to be more metal intensive than the technologies that they're replacing.

Within the sector, there is a secular shift – accelerated in the U.S. but also happening globally – toward steel production using electric-arc furnaces that require recycled scrap steel as feedstock. The mini-mills producing steel in this way are 40-60% less emission intensive than mills burning iron ore and met coal in blast furnaces. Production using scrap steel ranges from 70% of the market in the U.S., to about 50% in India, 25% in Japan, and 10% in China. Now that the quality of steel produced by mini-mills matches that made using blast-furnace technology, those numbers everywhere are likely to increase.

Which brings us to Schnitzer, whose main business is providing scrap metal to steel mini-mills. They have over 50 metal-recycling facilities around the country, using massive shredders and other equipment to chew up old cars, appliances, machinery and heavy industrial equipment to create scrap metal that can be re-used in the production of steel and other metals. The facilities are often well connected to transportation infrastructure that gives the company particular strength in certain geographies. They're #2 in the U.S. market in steel recycling, behind Nucor, which is also the largest U.S. steel producer in its own right.

Schnitzer has a captive steel manufacturing facility as well, in Portland, Oregon, that is powered by hydroelectric power and wins awards for sustainability. The company recently launched a "green steel" product that we think has a lot of potential as customers look to lower their carbon footprints. The main story for the company is rising secular demand for recycled scrap metal, but the production side of the business has the potential to grow nicely also.

The shares, now around $33.75, are off 45% from their 52-week high. How are you looking at valuation from here?

MH: Much of the share-price decline reflects a cyclical falloff in finished-steel demand and pricing over the past nine months, and given current capacity-utilization rates we're not expecting that to turn around soon. But relative to the company's more normalized earnings potential, we think the shares today are inexpensive. If we assume an 8% cap rate on our $180 million estimate of long-term annual operating income, the share price would be in the mid-$60s. That's pretty compelling, given that we believe we're likely near the bottom of the cycle and that our downside from the current price – which is just above 1x book value – is very limited.

To close with something entirely different, explain your interest in commercial real estate broker Marcus & Millichap [MMI].

MH: This is an interesting and fairly off-the-radar firm that is a leader in the private-client market for commercial real estate brokerage, involving transactions between $1 million and $10 million. The company has a 50-year history in the business, starting in California but now operating in markets nationwide. Close to 90% of total revenues come from commissions on transactions.

The private-client segment of the market is very active, involving deals for things like senior housing, self-storage, small hotels, small office buildings and small multi-unit dwellings. At least one side of the transaction is typically a high-net-worth individual or a small private fund or partnership. This part of the market is attractive from a brokerage perspective because there tends to be higher turnover, with deal volume impacted not just by macroeconomic trends, but by other events as well like death, divorce and taxes. It makes the business less volatile over the long term.

The company is very well run, with a culture focused on client service and a long track record of creating value through M&A in a still quite fragmented industry. They've been careful and targeted in looking to add established teams with specialized expertise in certain geographies or certain asset segments. Overall growth in book value per share, a proxy for the value they've created, has compounded at 19% per year since 2015.

I'd also mention the balance sheet, which after netting out $150 million in deferred compensation has net cash and securities of nearly $420 million, or more

INVESTMENT SNAPSHOT

Schnitzer Steel
(Nasdaq: SCHN)

Business: Operates recycling plants turning scrap metal into feedstock mainly for mini-mill steelmakers; Cascade Steel subsidiary also manufactures finished steel products.

Share Information (@1/30/23):

Price	**33.72**
52-Week Range	25.96 – 59.70
Dividend Yield	2.2%
Market Cap	$922.8 million

Financials (TTM)

Revenue	$3.29 billion
Operating Profit Margin	4.1%
Net Profit Margin	3.2%

Valuation Metrics
(@1/30/23):

	SCHN	S&P 500
P/E (TTM)	9.3	19.7
Forward P/E (Est.)	12.8	18.3

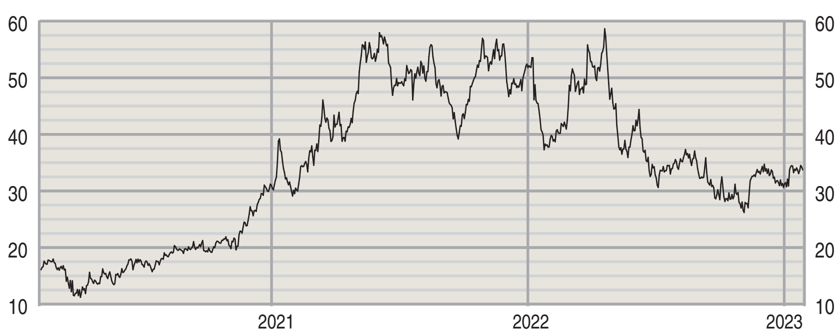
Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
Vanguard Group	10.0%
BlackRock	9.8%
Dimensional Fund Adv	7.7%
Fidelity Mgmt & Research	5.1%
Columbia Mgmt	4.9%

Short Interest (as of 1/15/23):

Shares Short/Float	1.7%

SCHN PRICE HISTORY



THE BOTTOM LINE

While the market seems more focused on the impact on the company of a cyclical falloff in finished-steel demand and pricing over the past nine months, Matthew Haynes sees a number of positive structural industry drivers working in its favor. Applying an 8% cap rate on his estimate of long-term operating income, the shares would trade in the mid-$60s.

Sources: Company reports, other publicly available information

INVESTMENT SNAPSHOT

Marcus & Millichap
(NYSE: MMI)

Business: Provider of commercial real estate brokerage and advisory services, specializing in U.S. private-client transactions that are typically priced between $1 and $10 million.

Share Information (@1/30/23):

Price	**35.87**
52-Week Range	31.11 – 58.33
Dividend Yield	1.4%
Market Cap	$1.41 billion

Financials (TTM)

Revenue	$1.53 billion
Operating Profit Margin	14.0%
Net Profit Margin	10.3%

Valuation Metrics
(@1/30/23):

	MMI	S&P 500
P/E (TTM)	9.1	19.7
Forward P/E (Est.)	31.5	18.3

Largest Institutional Owners
(@9/30/22 or latest filing):

Company	% Owned
BlackRock	13.1%
Vanguard Group	10.3%
Royce & Assoc	5.2%
Dimensional Fund Adv	3.8%
Reinhart Partners	2.8%

Short Interest (as of 1/15/23):

Shares Short/Float	3.6%

MMI PRICE HISTORY

THE BOTTOM LINE

The company has a leading position in an attractive market and the proven managerial and financial ability to redeploy free cash flow in value-accretive ways, says Matthew Haynes. That's not well reflected in today's share price, he says – putting a normalized multiple on his normalized operating-income estimate, the shares would trade above $60.

Sources: Company reports, other publicly available information

than $10 per share. They have plenty of flexibility to invest in growth – despite any weakness in the macro environment – while also returning capital to shareholders through dividends and buybacks.

How inexpensive do you consider the shares at today's nearly $36 price?

MH: The company isn't immune to the macro environment. With interest rates rising, the number of transactions has pulled back in the last couple of quarters, impacting both revenue and margins. That explains why the shares are down nearly 40% over the past nine months and trade today at roughly a 15% cap rate on our nearly $170 million annual estimate of normalized operating income. Based on the quality of the business, in a more normal environment as transaction volumes return, an 8% cap rate on operating income would be more reasonable. That would translate into a price north of $60 per share.

The founder of the company, George Marcus, is 81, still chairman of the board, and owns more than 35% of the outstanding shares. I don't at all know his plans, but this company strikes me as a Berkshire Hathaway type of business, with a leading position in an attractive market and the proven ability to redeploy free cash flow in value-accretive ways. We're always happy owning what we consider to be a compounder, but we could imagine others might be as well. VII