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Value Investor INSIGHT

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Anti-Provincial

Apis Capital's Daniel Barker and Eric Almeraz explain why they don't have much direct competition, how they zero in on ideas from a very broad investment universe, the global investment themes currently reflected in their portfolios, and why they see mispriced value in Garrett Motion, Alzchem, Osaka Soda, SNT Dynamics, Harmonic Drive Systems and C3.ai.

INVESTOR INSIGHT


Apis Capital
Daniel Barker, Eric Almeraz

For all their ostensible worldliness, investors understandably are most comfortable on their home turf, where they typically can be better informed about the economic environment, the companies and the culture. Daniel Barker since co-founding Apis Capital with Eric Almeraz in 2004 has followed a consistent strategy meant to take advantage of that "homer" mentality: "Local investors tend not to apply a global perspective in trying to understand companies in their domestic market," he says. "We think connecting the dots among global businesses can give us a meaningful competitive advantage."

He's proven that out nicely. The long/short Apis Flagship Fund since its 2004 launch has earned a net annualized 11.8% return, vs. 8.6% for the MSCI All Country World Index. Focusing on the long side on smaller companies with strong market positions in niche global markets, Barker and Almeraz are finding misvalued opportunities in such areas as vehicle turbochargers, specialty chemicals and tank transmissions. Fertile ground on the short side includes buzzy industries such as robotics, AI and quantum computing.

Your Flagship Fund is a global small and mid-cap long/short strategy that you describe as having little to no direct competition. Why do you think that is?

Eric Almeraz: If you had told us 20 years ago that we'd be able to generate the outperformance we have we would certainly have expected at least a few comparable firms to enter the space. But it just hasn't happened and the simple reason is that it's a difficult strategy to implement.

Part of it is volume. Our investable world has about 21,000 stocks, 19,000 of which are under $10 billion in market cap. Even when you've narrowed that down dramatically, for people who haven't been doing this for 30 years that's a lot of companies to meet and relationships to build in order to do the fundamental analysis we do. You have to be comfortable operating in different languages, different cultures, with different reporting requirements and, many times, logistical issues in even setting up to trade. The typical U.S.-based investor looks at all that and doesn't think it's worth the effort. That's fine with us.

Daniel Barker: So we're competing mostly with local-market investors. They may benefit from better understanding the local market dynamics, but we think our advantage comes in looking across global industries and bringing insight to the table they don't. The Asian-centered investor doesn't get paid to look deeply into the competitor in Germany or the supplier in Australia or how the relevant market is evolving in the U.S. Trends can roll like waves across different geographies. We believe connecting the dots across the global competitive set and investing in a nimble and flexible way where we find mispricing, irrespective of geography, gives us a real edge.

Have you tended to focus somewhat by geography or industry?

DB: We keep an open mind and go where we find opportunity, but our geographic focus has been mostly in North America, Europe and developed Asia and our sector focus has been in technology, healthcare, industrials, materials and consumer. We want a global perspective to bring something to the table and that doesn't happen everywhere. We don't do a lot in emerging markets, for example, where there aren't that many global businesses and you have to make more of a country bet. A much better fit for us in smaller markets would be countries like South Korea and Sweden, where companies from the get-go often aspire to grow beyond the domestic market.

We also avoid sectors that require local expertise. We're not the right ones to assess a commercial real estate company in Japan or Hong Kong. We also avoid highly regulated industries like utilities or financials where there's more of a premium on understanding the domestic political and regulatory environment. We've tried to create circles of competence around a number of niche industries with three to five global competitors and a relatively small number of suppliers and customers. That's where we're more likely to develop a variant view on a company's prospects.

Have you been active in China?

DB: Given how important Chinese companies are in global supply chains across industries, we have to be very up on things in China from a research perspective. But from an investing perspective there's a hesitation with all things China. We've probably been more active on the short side, say in the automotive or green-energy supply chain. On the long side we currently have one name, DPC Dash [Hong Kong: 1405], which holds the Domino's Pizza franchise in China. We're more confident in it because the global parent company is involved in the management and board and it's run in more of an Anglo-Saxon way.

How do you zero in on potential ideas?

DB: One screen I use a lot is basically what were the major movers up and down yesterday. With certain market-cap cutoffs and geographic parameters there's still noise in the results, but often I'll know something about a name and its industry and will want to know what happened. Any time there's a big move in a stock something surprised someone and expectations appear to have changed. That's the type of thing we want to look at.

We try to think laterally. When we see something going on in one business, we'll look at a few others halfway around the world that are maybe in the same industry or impacted by the same changing dynamics but investors in those markets aren't fully incorporating the benefits or harm those changing dynamics might bring. You go down these little rabbit holes and most of the time they lead nowhere, but occasionally you pull on the string and something pops up and we can get ahead of it.

One process change we've made is to set aside maybe 10% of the long portfolio for "farm team" investments. We were creating big watch lists of names and at the end of the year a lot of them were way up and we were still watching them. We've been at this long enough that we can smell a good idea and now we put them on the book earlier. Having them on the P&L accelerates the process of understanding the idea better and doing the work necessary to commit to a larger position. You can be wrong and that's OK, but we've found this to be a good way to get into good ideas earlier and benefit from our research.

EA: We're generally looking for material change at a company, where our assessment of that change results in our having earnings estimates that are far different from the consensus expectation. There's often a structural driver, say from broad-based trends current in the portfolio today like global rearmament, power-grid modernization or increased mining capital spending. The impact of change like that on dominant niche global players can mean we have earnings estimates that are two to three times higher than what's being modeled by the Street. Those have tended to be our best performers.

ON GLOBAL PERSPECTIVE:

Our advantage is in looking across global industries and bringing insight to the table local-market investors can't.

As an example, a newer area of interest for us is mining capital investment. Mining companies broadly speaking have been disciplined for years in expanding productive capacity, but now with the business flush with cash from higher commodity prices these companies are looking at 30%+ IRRs on investment projects. In gold, IRRs are twice that and companies are talking about 18-month paybacks. At the same time you have a push by many governments to increase domestic production to lessen reliance on foreign-sourced minerals. We think all that is likely to drive greenfield and brownfield expansion that will increase demand for companies selling equipment, parts and services – almost literally picks and shovels – used in building out mining infrastructure.

If we're right about an upcoming surge in mining capex, we're finding niche companies with global businesses where we see material earnings upgrades over the next few years, at a time when the sell-side growth outlook is still muted. Examples we own include FLSmidth [Copenhagen: FLS], a mining engineering and equipment firm based in Denmark, Epiroc [Stockholm: EPI.B], which makes heavy equipment and has a broad global distribution and servicing network, and Weir Group [London: WEIR], which specializes in making the teeth that go into scoop buckets used in mining and construction. We haven't seen the turn yet in capex, but we are seeing companies raise capital and believe a big increase in spending is on the way. It looks like a very good setup to us.

What do you think the market is missing in auto supplier Garrett Motion [GTX]?

DB: This is a Swiss company that was spun out of Honeywell in 2018 and has the leading global market share in turbochargers. We've owned the stock for years essentially as a managed decline, in that they're great at making turbochargers and turbochargers are taking significant share in cars with internal combustion engines because they improve fuel economy and reduce emissions – turbocharger penetration has gone from 15% 10-12 years ago to over 50% today. But the electrical vehicle is taking over, and as ICE vehicles go away Garrett will just make what they can and then go away. It's not the type of idea that gets anyone very excited.

The stock has worked fine, in part because the decline of the ICE engine has been slower than people feared. The company has also been disciplined in first paying down debt and then returning 75% of free cash flow to shareholders. They over the last three years have retired nearly 40% of the outstanding shares and expect to continue the current pace of buying back 7-8% of the shares every year.

Now we think Garrett can turn into a growth company again. It has developed drivetrain components for electric vehicles and in April signed its first big deal, with the Chinese company HanDe, to provide e-axles for trucks. Their core skills are in compression – part of what makes turbochargers work is compressing gas – and they've applied similar technology to develop systems for EVs that cool both the cabin and under-the-hood components. They're also applying turbocharger compression technology more generally to more energy efficient and quieter air-conditioning systems and back-up generators specifically designed for data centers.

These new efforts are all at early stages of commercialization, but management says on a base of $3.5 billion in annual revenue today that they expect to add $1 billion in incremental sales by the end of the decade. They're typically very conservative and we think they're underselling what they can do. We don't believe it's a stretch to assume the company can generate closer to $5 billion in revenue by 2030.

What impact do you expect a resurgence of growth could have on the shares, now trading at around $16.50?

DB: The stock trades at a free-cash-flow yield of 12% and around 9x our estimate of next year's earnings. At $5 billion in revenue at the end of the decade the company could earn at least $3 per share on the current share count, but much more than that if they continue to buy back shares as they have. At that point it would be a real company with real growth prospects again. We think the downside is pretty limited, but if everything goes right we could see the market paying closer to a 20x multiple for the stock. If the data-center angle comes through, you can only dream about what the market might pay for that.

From turbochargers to specialty chemicals, describe your interest in Germany's Alzchem [Frankfurt: ACT].

EA: This is a nearly 120-year-old company whose specialty is producing calcium carbide, which it then uses to make a variety of other chemical products. Alzchem is basically the only manufacturer of calcium carbide in the Western world, with three furnaces in Europe that make it by treating lime and carbon and then applying high levels of heat to produce the final product. Outside of China, everyone else has transitioned to using a petroleum-based process which now precludes them from making a number of key end products.

There are two products that drive our interest in the company. First, it is a leading global producer of creatine, which has historically been known as a supplement for weightlifters, but which is getting greater recognition in the health community as beneficial for anyone wanting to maintain muscle mass. This product has been a strong grower for them, and because Alzchem's version is considered safer to use than the products coming out of China it earns a good price premium in the market. The creatine business today accounts for about 15% of sales, but the company is investing in new manufacturing capacity for it and we expect that share can double over the next two to three years.

Another jewel, now about 10% of sales, is a product called nitroguanidine [NQ], of which Alzchem again is the only producer in the western world. It is used in military applications, primarily as a propellant in munitions such as 155-millimeter shells. The company currently produces NQ in one factory in Germany, but

INVESTMENT SNAPSHOT

Garrett Motion
(Nasdaq: GTX)

Business: Global market leader in the manufacture of turbochargers; diversifying its product line to increasingly serve electric-vehicle and cooling-system end markets.

Share Information (@11/28/25):

Price	**16.53**
52-Week Range	7.01 – 17.90
Dividend Yield	1.9%
Market Cap	$3.21 billion

Financials (TTM):

Revenue	$3.54 billion
Operating Profit Margin	14.4%
Net Profit Margin	9.2%

Valuation Metrics
(@11/28/25):

	GTX	S&P 500
P/E (TTM)	10.5	25.2
Forward P/E (Est.)	10.7	22.1

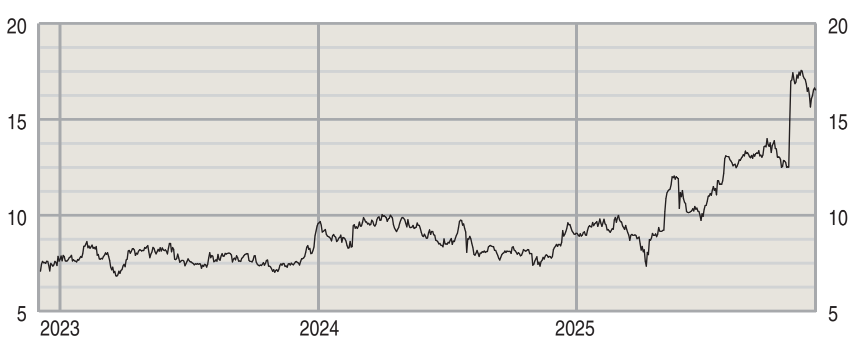
Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
Brookfield Corp	8.8%
Cyrus Capital	7.3%
BlackRock	5.5%
William Blair Inv Mgmt	4.0%
Fidelity Mgmt & Research	3.7%

Short Interest (as of 11/15/25):

Shares Short/Float	4.7%

GTX PRICE HISTORY



THE BOTTOM LINE

Daniel Barker thinks the company "can turn into a growth company again" through the commercialization of new products used in electric vehicles and in energy efficient and quieter air-conditioning systems. On the $5 billion in annual revenue he believes it can generate by the end of the decade, he says the company could earn at least $3 in EPS.

Sources: S&P Capital IQ, company reports, other publicly available information

it has signed a preliminary contract with the U.S. government to build a new production facility in the U.S., fully funded by the Department of Defense. They're scouting locations and plan to have the facility up and running by the end of 2029. When it comes on line we'd expect NQ's share of company sales to double as well.

At today's share price of nearly €129, how does your view of the company's prospects differ from the Street's?

EA: The Street expects around €6.80 per share in EPS next year and we believe they can do better than €8. The following year the Street is at €8.50 and we're at €10-plus. Part of that is from incremental revenue growth, but it also reflects that the profitability in these two growth businesses is much higher. On a blended P/E and discounted-cash-flow basis, our target price for the stock is in the mid-$200s.

Some private-equity shareholders have been selling stock. Is that an overhang?

DB: We think the fundamentals of the business and the appetite from other investors will mean any private-equity selling won't be an overhang. I would add that generally when we've seen private equity involved in companies that have come public, the companies have been well run and have a smart approach to capital allocation and a focus on returns on capital. That has been the case with Alzchem.

Sticking with specialty chemicals, describe your investment case for Japan's Osaka Soda [Tokyo: 4046].

DB: At a high level this looks like a typical specialty chemical company in Japan, with 85% of its business producing what they call basic and functional chemicals that they turn into rubbers and glues used to make cars, semiconductors and any number of end products. These businesses tend to grow in the low-single-digits, aren't overly cyclical and produce 10-15% operating margins. All fine, but not a lot there to get investors' blood boiling.

What is exciting is the company's healthcare division, which currently accounts for the other 15% of total revenues. Osaka Soda is the dominant global supplier – with a roughly 60-70% global market share – of silica gel beads, a consumable key ingredient in the production of peptide drugs such as the blockbuster weight-loss drugs Ozempic and Wegovy. They've been adding capacity to produce silica gel beads as fast as they can to keep up with demand, and we expect the healthcare business overall to grow 20-30% for at least the next several years. That makes a big difference given that healthcare generates 50% or so operating margins. Looking two to three years out it should account for more than half of the company's total profits and, given the expected demand growth in obesity drugs, will still be growing at a high rate.

We have to rely on the company for this information, but they believe they are by far the global leader in an oligopoly market for silica gel beads, ahead of a company based in the Netherlands called Nouryon that has maybe a 15% market share. Customer relationships in this type of business tend to be long-term, given the requirements for regulatory approval and

INVESTMENT SNAPSHOT

AlzChem
(Frankfurt: ACT)

Business: Manufacturer of calcium carbide and related products; key products include a creatine-based heath supplement and nitroguanidine, a propellant used in munitions.

Share Information
(@11/28/25, Exchange Rate: $1 = €0.86):

Price	**€128.80**
52-Week Range	€53.80 – €167.20
Dividend Yield	1.4%
Market Cap	€1.30 billion

Financials (TTM):

Revenue	€576.1 million
Operating Profit Margin	14.6%
Net Profit Margin	10.7%

Valuation Metrics
(@11/28/25):

	ACT	S&P 500
P/E (TTM)	21.1	25.2
Forward P/E (Est.)	19.3	22.1

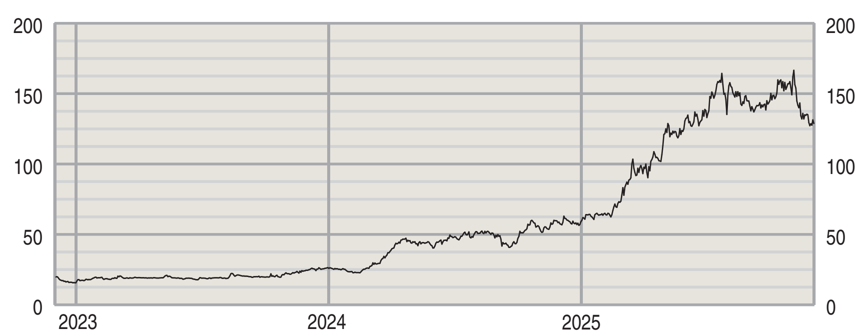
Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
LIVIA Group	19.8%
Janus Henderson	5.0%
J.P. Morgan Asset Mgmt	4.9%
Deutsche Asset & Wealth	3.9%
M&G Luxembourg	3.5%

Short Interest (as of 11/15/25):

Shares Short/Float	n/a

ACT PRICE HISTORY



THE BOTTOM LINE

As two unique and high-margin product lines – one selling creatine and another selling the munitions-propellant nitroguanidine – grow rapidly, Eric Almeraz expects the company to significantly outperform Street earnings expectations. Valuing the shares on a blended P/E and discounted-cash-flow basis, his target price for the stock is in the mid-$200s.

Sources: S&P Capital IQ, company reports, other publicly available information

the premium put on input-product quality and reliability. Osaka Soda has been working with companies like Eli Lilly and Novo Nordisk for decades, originally on those companies' insulin products, and has been heavily involved in the development of the obesity drugs.

What upside do you see in the shares from today's ¥2,200 price?

DB: The stock on our estimates currently trades at 15-16x this year's and 12-13x next year's earnings. We don't believe that's reasonable for a company that we think because of the healthcare business can grow overall earnings per share at a better than 20% annual rate for several years. To us this is an undiscovered way to play the trend in obesity medications. There's no reason a company with this quality of earnings and this type of growth couldn't justify a 20x or higher earnings multiple.

EA: One thing I would add is that Ozempic is going generic in a whole bunch of countries early next year. Our growth assumptions mostly just take into consideration the expected growth for GLP-1 drugs in North America and Europe. The company should benefit on top of that from generic rollouts in a number of additional, very large, markets as well. Given that they provide relatively low-cost inputs to the manufacturing process, what matters more for Osaka is the number of people using the drugs rather than the price they're paying for them.

Is there anything of note to say about corporate governance here?

DB: We started looking at this two years ago and the company was initially difficult to reach. That's gotten better and in their latest earnings report they disclosed a plan to buy back 5% of the shares. They also just hired their first investor-relations person. Those sound like such basic things, but they signal real improvement.

Turning to a company with another military investment angle, explain your enthusiasm for South Korea's SNT Dynamics [Seoul: 003570].

DB: The defense renaissance has been a theme in our portfolio, as global rearmament is driving demand for next-generation systems over many years in a variety of military applications. One of our earlier investments was in a company called Hyundai Rotem [Seoul: 064350], which is a major manufacturer of tanks and armored vehicles. That then led us to SNT Dynamics, which is a major supplier to Hyundai Rotem.

SNT sells a variety of products but its main focus is transmissions, with two-thirds of overall company sales going to the defense sector and the rest to automotive manufacturers. Its biggest business is supplying transmissions for tanks, where the global competitive set primarily consists of single suppliers to an oligopolistic set of tank manufacturers: SNT supplies Hyundai Rotem, Renk Group supplies Rheinmetall, and Allison Transmission supplies General Dynamics.

EA: One thing working in the company's favor is that Hyundai Rotem has been

INVESTMENT SNAPSHOT

Osaka Soda
(Tokyo: 4046)

Business: Global manufacturer of a variety of specialty chemicals and related products; fastest-growing business supplies silica gel beads used to make weight-loss drugs.

Share Information
(@11/28/25, Exchange Rate: $1 = ¥156.20):

Price	**¥2,203**
52-Week Range	¥1,328 – ¥2,219
Dividend Yield	1.2%
Market Cap	¥275.00 billion

Financials (TTM):

Revenue	¥95.10 billion
Operating Profit Margin	15.1%
Net Profit Margin	12.9%

Valuation Metrics
(@11/28/25):

	4046	S&P 500
P/E (TTM)	22.7	25.2
Forward P/E (Est.)	19.5	22.1

Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
Fidelity Mgmt & Research	5.5%
J.P. Morgan Asset Mgmt	3.8%
SBI Rheos Hifumi	3.6%
Capital Research & Mgmt	3.5%
Asset Mgmt One	3.1%

Short Interest (as of 11/15/25):

Shares Short/Float	n/a

OSAKA SODA PRICE HISTORY

THE BOTTOM LINE

The market doesn't appreciate the company's earnings-growth potential driven by its division selling inputs into the production of weight-loss drugs such as Ozempic and Wegovy, says Daniel Barker. He expects to benefit as a shareholder at least in line with the 20% annual EPS growth he thinks the company can generate over the next several years.

Sources: S&P Capital IQ, company reports, other publicly available information

successful in expanding beyond its core South Korean market. The domestic defense industry is quite well developed given the history with North Korea, but it's grown at only a moderate pace and with low margins for contractors like Rotem and for sub-contractors like SNT. That's changing as Rotem continues to sign large deals like one in Poland – they've also contracted to sell tanks in the Middle East as well as Romania – with high unit volumes and significantly better margins. We think Rotem is earning operating margins on its Poland business that are 10x what it earns in Korea. That may not all flow through to SNT, but it still should be very profitable business for it to take on.

What makes SNT particularly interesting is that it appears to be relatively undiscovered by the market. Only one or two analysts follow it and the shares trade at less than 12x earnings, when Hyundai Rotem trades at about 30x and Renk at about 50x. That disparity doesn't make sense to us when SNT has similar visibility, superior growth potential and more margin upside.

Where do you think the shares, at a recent ₩42,350, should more reasonably trade?

EA: We think the stock today on our estimates two years' out trades at less than 10x earnings. Using a blended DCF and multiples analysis – assuming revenue growth in the teens over the next few years and EBITDA margins rising above 20% – our target share price is between ₩70,000 and ₩80,000. First-tier companies in South Korea have re-rated a lot, reflecting the returns on capital they can generate and better corporate governance. If we're right about the improved growth and profitability of SNT's overseas sales, we'd expect a similar re-rating here.

Turning to the short side of your book, how would you characterize the opportunity set there today?

DB: That depends on the day you ask. Earlier this month I would have said shorting is very difficult, particularly in more speculative names. Now I'd say things are working out great in those names.

We classify our shorts into three buckets. What we call "melting ice cubes" are businesses we believe are in secular decline over multiyear periods. We always limit position sizes in our shorts, but in these we're willing to hold 50-100 basis point positions and we tend to stay with them longer as the business grinds lower. An example where we're active today would be in Big Food, given the negative impacts of GLP-1s, Make America Healthy Again and input-cost inflation.

The second bucket would be "broken growth" names that after a period of over-earning have seen or are about to see a meaningful slowdown. If that happens, growth investors exit quickly and value investors are slow to step in. With these we trade more actively and because of the potential volatility we keep position sizes to 40 to 50 basis points.

Our last category are "battleground" stocks, speculative names that get bid up to absurd valuations based on narratives that we think make no rational sense. We keep each of these ideas deliberately small, but we often think they're eventually going to be worth zero and in aggregate they will produce a lot of alpha. These are the

INVESTMENT SNAPSHOT

SNT Dynamics
(Seoul: 003570)

Business: South Korean producer of vehicle parts and equipment, most prominently transmissions used in military armored vehicles and artillery systems such as howitzers.

Share Information
(@11/28/25, Exchange Rate: $1 = ₩1,468):

Price	**₩42,350**
52-Week Range	₩16,260 – ₩76,400
Dividend Yield	4.7%
Market Cap	₩1.00 trillion

Financials (TTM):

Revenue	₩679.99 billion
Operating Profit Margin	13.4%
Net Profit Margin	12.0%

Valuation Metrics
(@11/28/25):

	003570	S&P 500
P/E (TTM)	11.8	25.2
Forward P/E (Est.)	15.6	22.1

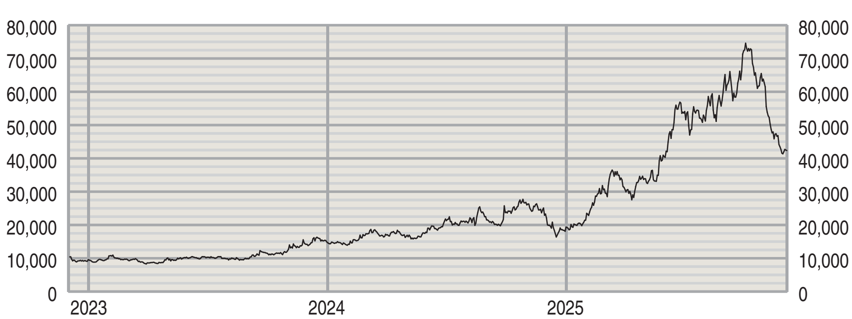
Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
National Pension Service	11.5%
S&T Foundation	4.2%
Norges Bank Inv Mgmt	4.0%
Dimensional Fund Adv	0.7%
Mirae Asset Global Inv	0.4%

Short Interest (as of 11/15/25):

Shares Short/Float	n/a

SNT PRICE HISTORY



THE BOTTOM LINE

The company appears to be an undiscovered beneficiary of the global rearmament theme that is prominent today in Apis Capital's long portfolio, says Eric Almeraz. Its stock currently trades at less than 10x his 2027 EPS estimate, but using a blended DCF and multiples analysis he pegs a target price at between ₩70,000 and ₩80,000 per share.

Sources: S&P Capital IQ, company reports, other publicly available information

types of names that paid off well for us in 2022, when our Flagship Fund was up 2% on the year when the MSCI All Country World Index was down 18%.

What's an example of fertile ground for battlefield shorts today?

DB: Quantum computing would be one. While there are serious quantum computing efforts with large long-term potential underway at tech giants like IBM, Google, Intel and Microsoft, none claim to be close to commercialization. Into that environment you have a number of companies issuing grandiose press releases and raising a lot of capital while generating minimal revenue, spending little on R&D, and providing almost nothing in the way of technical transparency.

When Nvidia CEO Jensen Huang was asked at a conference in January about the prospects for quantum computing, he said he doubted if a useful quantum computer would hit the market within 15 years. When someone pointed out that kind of skepticism would likely hurt the public quantum stocks he responded by saying, "How could a quantum computing company be public?" A lot of these stocks are down a lot this month, but we think the disconnect between fundamentals and valuation still doesn't make sense in a number of names, including IonQ [IONQ], Rigetti Computing [RGTI] and Quantum Computing [QUBT].

Describe your short case for Japan's Harmonic Drive Systems [Tokyo: 6324].

EA: The company is a leading global supplier of small motors called harmonic speed reducers, which are essentially gearing systems that allow for very precise movements in industrial equipment. The most prominent application is in industrial robots like those sold by Fanuc, one of its largest customers. It's a global business, with 40% of sales in Japan, 30% in the European Union, 20% in North America and the rest mostly in China.

What drew us to this idea was looking into a number of the humanoid robot plays in Asia, where stocks betting on that theme had gone up astronomically and looked really overvalued. We'll always look both at the companies themselves as well as the supply chain for them. That's where we came across Harmonic.

What we found was that most of those frothy humanoid robot companies didn't buy from Harmonic because its prices are too high. When we dig deeper, it appears to us that the Chinese competitors have figured out how to make harmonic speed reducers of comparable quality at price points that are 50-80% below what Harmonic charges. As a result of that, Harmonic's share of the broader market in China has fallen from an estimated 75% in 2018 to less than 10% today. The top competitor in China, a company called Leader Harmonious Drive Systems [Shangai: 688017], has been growing at 40-50% year on year.

We see this as a harbinger of things to come for Harmonic elsewhere, where its market shares have been falling but in many cases are still high at 70% or more. For robotic devices to come into greater use – which is highly likely – price points will have to come down, which doesn't bode well for high-cost suppliers like it.

INVESTMENT SNAPSHOT

Harmonic Drive Systems
(Tokyo: 6324)

Business: Global manufacture and sale of high-precision gearing systems that are used in robotic and other system applications that require precise equipment movements.

Share Information
(@11/28/25, Exchange Rate: $1 = ¥156.20):

Price	**¥3,090**
52-Week Range	¥1,829 – ¥5,350
Dividend Yield	0.6%
Market Cap	¥292.52 billion

Financials (TTM):

Revenue	¥56.92 billion
Operating Profit Margin	1.9%
Net Profit Margin	8.2%

Valuation Metrics
(@11/28/25):

	6324	S&P 500
P/E (TTM)	63.1	25.2
Forward P/E (Est.)	86.6	22.1

Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
Capital Research & Mgmt	5.4%
T. Rowe Price	4.4%
IBG Asset Mgmt	3.3%
Nomura Holdings	2.6%
SBI Rheos Hifumi	2.6%

Short Interest (as of 11/15/25):

Shares Short/Float	n/a

HARMONIC PRICE HISTORY

THE BOTTOM LINE

Bulls will argue that the company's recent financial results have been hurt by a normal cyclical downturn, but Eric Almeraz doesn't believe that's the case given a sharp increase in low-cost competition. Modeling 5% annual revenue growth and "still probably generous" 20% EBITDA margins, he believes the target price for the shares is closer to ¥1,000.

Sources: S&P Capital IQ, company reports, other publicly available information

How are you thinking about downside from the recent share price of ¥3,100?

EA: Bulls will make the case that the reason the company's financial results have been stressed is because of a typical cyclical downturn that will reverse. We just don't think that will be the case given the dramatic increase in competition from low-cost suppliers. You can maybe work around competitive pricing that's 10-20% lower, but the fact that others' prices are so much lower here is likely to be a long-term problem for the company.

When we do a reverse DCF it appears the market is pricing in 15% top-line growth and 30% EBITDA margins for the next decade. We think they'll be lucky to do half that. If we model 5% annual revenue growth and still probably generous 20% EBITDA margins, we come to a target price of around ¥1,000.

This is an example of what Dan referred to earlier as a broken-growth type of short idea, where we see a company losing its once-dominant position. We're finding a number of these in today's market, where stocks are bid up even higher based on a particular narrative, here like anything having to do with robots.

Speaking of particular narratives, is AI enthusiasm represented in some of your current short ideas?

DB: Of course, how could it not be? We do have some longs we think are positioned to benefit from AI, including those providing power-grid infrastructure and some opportunities in storage and memory markets. But there are clearly speculative aspects of the theme, where financial payoffs from AI strike us as hard to measure and wildly overblown at best, and outright absent at worst.

One representative short along these lines is C3.ai [AI], where we think the ticker symbol is probably the most valuable asset they have. The company sells business-intelligence software, which mines and tracks internal enterprise data, makes logical sense of it, and provides insight to management on how to run things better. There's nothing inherently wrong with that as a business, but C3.ai has been extremely aggressive in playing up the unique AI capabilities of its software when we believe they don't really exist. A lot of companies provide solutions like this, incorporating AI features like natural-language querying that C3.ai bills as revolutionary.

What makes this timely today is that the company's largest customer, oilfield-services provider Baker Hughes, is clearly backing away from C3.ai. In 2019 it gave Baker Hughes a large equity stake in return for a long-term contract, but revenues under that deal are expected to fall from $75 million last year to $20 million or less this year and next. Baker Hughes has also been selling shares, taking its equity position from 15% to around 6%. Management is cagey in the way they talk about it, so we don't think the market is as aware as it should be of what this relationship's winding down will mean for future growth and the company's reputation.

You've been known to describe your shorts at times as "eventual zeros." How would you describe the outlook for C3.ai's shares, now trading at around $14.50?

INVESTMENT SNAPSHOT

C3.ai
(NYSE: AI)

Business: Provider of business-intelligence software that tracks and mines internal enterprise data to provide insight on operational efficiency and efforts to potentially improve it.

Share Information (@11/28/25):

Price	**14.45**
52-Week Range	12.59 – 45.08
Dividend Yield	0.0%
Market Cap	$1.99 billion

Financials (TTM):

Revenue	$372.1 million
Operating Profit Margin	(-101.2%)
Net Profit Margin	(-92.1%)

Valuation Metrics
(@11/28/25):

	AI	S&P 500
P/E (TTM)	n/a	25.2
Forward P/E (Est.)	n/a	22.1

Largest Institutional Owners
(@9/30/25 or latest filing):

Company	% Owned
Vanguard Group	10.4%
BlackRock	7.4%
Morgan Stanley	3.2%
Susquehanna Int'l	2.3%
State Street	2.1%

Short Interest (as of 11/15/25):

Shares Short/Float	32.2%

AI PRICE HISTORY

THE BOTTOM LINE

Daniel Barker believes the company has been extremely aggressive in playing up the unique artificial-intelligence capabilities of its software when they don't really exist. He characterizes its financial performance as "treading water or worse at an already heavily loss-making level," and considers that a state of affairs that can't be sustained for long.

Sources: S&P Capital IQ, company reports, other publicly available information

You've been known to describe your shorts at times as "eventual zeros." How would you describe the outlook for C3.ai's shares, now trading at around $14.50?

DB: One thing that protects companies like this, which is a frustration in a lot of our shorts, is that it's hard to put them out of business when they have these insane multiples and can raise capital regularly to buy time. C3.ai has about $700 million in cash on hand. In its latest fiscal year ending in July, the company reported a net loss of just under $350 million on revenues of $372 million. Revenue declined in the latest reported year and net losses have increased in each of the last five years.

So you've got a company at the current run rate with two years of cash left, with a business we don't think fits any legitimate AI narrative and with no competitive advantages. It seems to be treading water or worse at an already heavily loss-making level. You can't sustain that for long. The stock has already cracked from the craziest levels, but we think there's plenty of room still to go on the way down.

You've been through your share of crises as a portfolio manager. Has that given you any insights into when the next crisis might arrive and what might cause it?

DB: I've been perpetually worried about debt levels and shockingly high fiscal deficits. I'm worried about sentiment indicators and the amount of bullishness and risk-taking on the part of investors today, resulting in valuations that are arguably quite high. That environment makes me cautious, but I would also say that's generally been the case for a long time.

We try not to get too deep into macro. I think we're good stock pickers and good business analysts and we should focus our time on trying to make good calls on which businesses are going to succeed and which are going to fail. Bottom-up investors can get consumed with macro at times and I'm wary of not letting that take my eye off the ball. Both international and smaller-cap stocks – our specialties – have lagged for well over a decade but that's showing signs of changing. We don't want to be distracted by anything but picking stocks. VII

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