Value Investor INSIGHT

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Capital Ideas

W1M's Chris Garsten, Charles Glasse and Charles Walker explain the top-down approach that points them to out-of-favor European ideas, why the market is slow to come around to what they find interesting, the risks and rewards of investing in industry leaders, and what unrecognized value they see in Viscofan, Acerinox, Smurfit Westrock and Inditex.

INVESTOR INSIGHT

W1M
(*l to r*) Chris Garsten, Charles Glasse, Charles Walker

While the capital-cycle story of the day for many investors revolves around spending on AI infrastructure, Chris Garsten and Charles Glasse of London-based W1M are far more apt to prospect for ideas where capital is flowing out rather than in. "Clear triggers have happened to consolidate an industry, but the remaining companies are at the early stages of taking advantage of that," says Glasse. "That's where we get interested."

Zigging while others zag, they've generated since launching the Waverton European Capital Growth Fund in 2001 a net annualized 7.8% return (in €), vs. 5.2% for the MSCI Europe ex-UK Index. Among industries of interest today: stainless steel, paper and packaging, and clothing retail.

You typically take more of an industry-first approach when prospecting for investment ideas. Explain the rationale behind that.

Charles Glasse: Industries where there is clear demand growth generally attract significant amounts of capital. That makes perfect sense, but very often the influx of capital to expand supply not only matches the demand but also greatly exceeds it. As the industry goes into oversupply, the pricing power and product differentiation any company may have had can disappear rather quickly. That's the type of situation we try to avoid.

At the end of this period of excess supply, profitability often drops quite dramatically for the industry as a whole and that triggers a natural response. Management teams figure out they need to constrain capacity, maybe shutting down their most expensive production. Companies pursue mergers and acquisitions to get bigger and improve economies of scale. Some players leave the industry or go out of business altogether. As this plays out the remaining industry players typically find themselves in a more rational and balanced market, having gained market share without building new capacity. They have much improved pricing power. All of which can lead to fantastic operational leverage and rising profitability. These are the situations we want to explore.

This approach leads us to companies that are very much out of favor. Investors tend to run from industries where things haven't been going well and where companies have been struggling. They like to forecast the recent past into the future rather than consider what may be a longer-term cycle. In Europe today that often translates into out-of-favor companies trading at P/Es of 13x, 14x or 15x and dividend yields of 4%, 5% or 6%. If you catch the right companies early enough, when their industries are still considered value traps, the upside potential from earnings per share growth can be very high, while the downside is limited because expectations are so low. Playing on that risk versus reward is how we've been able to outperform the market over time with lower volatility.

You invest almost exclusively in companies based in continental Europe. Do you always have enough to do?

Glasse: We're patient and wait for clear indications a market is tightening up. The closing of a big factory. The bankruptcy of a key player. The merger of two big competitors. These don't drop out of the sky very often, but we don't need them to. We're quite happy with two new good ideas a quarter.

A lot of our work is preparatory and in advance of any catalysts appearing. Today in the chemical industry, for example, we're seeing a lot of capacity being added in China and the Middle East that strikes us as out of proportion to prospective demand growth. So we're spending time today looking throughout the chemical value chain for those areas likely to be most impacted by excess supply and what the responses could be to improve the situation. It might be three to four years before we see some of the consolidation that will likely be necessary, but we should be prepared to act accordingly when it does start to happen.

There are industries that haven't really seen a full capital cycle play out since we started this strategy nearly 25 years ago. The banking industry in Europe, for instance, is still incredibly fragmented and is due for a period of consolidation. But there's generally been some sort of capital cycle over that time in most every other industry we follow.

Chris Garsten: It can be in a subset of an industry no one pays much attention to. We've recently found a lot to do in the Dutch defined-benefit life insurance market, a quite boring business with little growth, but where regulators have decided the industry could benefit from consolidation. The resulting improvement in profitability of the remaining players as they cut back-office costs and gain some pricing power should be quite impressive and we would expect that to translate into rising share prices.

I would add here that part of our opportunity stems from the fact that the market, weirdly, can be very slow in appreciating the eventual results of industry consolidation. Companies announce a quarterly beat and raise and the stock instantly goes up 10%. But when we see what we consider much more interesting long-term news about industry supply and demand, investors often shrug their collective shoulders and do nothing. They want to see the benefits clearly show up in the financials first – we believe we can credibly handicap the results of the consolidation before that.

What size company tends most often to interest you?

Garsten: We are generally underweight very large companies where the structural change has likely already happened. We're overweight mid-caps and will go smaller but for liquidity reasons tend not to go below €1 billion in market cap. I would say we've found investing in small caps to be a bit of a minefield. They often either have little ambition to take advantage of a changing industry structure or they lack the financial wherewithal to do so. In the latter case they get sort of halfway into evolving and then the money runs out.

Describe the industry setup that sparked the recent purchase in your Capital Growth Fund of sausage-casings maker Viscofan [Madrid: VIS].

Garsten: We're looking for triggers in the real world that might indicate there will be a material reduction in supply in an industry. In this case it was the announcement in late March that one of Viscofan's biggest competitors in the United States, a company called Viskase, was closing one of its two large casing production plants there. Viskase – which has since oddly been sold to what appears to be a SPAC called Enzon Pharmaceuticals – while it's struggled has been a right pain in the neck in the U.S., selling a low-quality product at very large discounts. That's resulted in Viscofan, which owns 40% of the global sausage-casing market, in the U.S. earning roughly half the 24% operating margins it earns outside the U.S. (One fun fact as an aside, if you buy a cheap sausage, the casing is very likely more valuable than the content.)

ON TIMING:

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Viscofan had been on our watch list for a number of years as a global market leader with an established reputation as a high-quality producer. With excess supply coming out of the U.S. market – which accounts for roughly 30% of the world's sausage demand – we expect that margin gap to close, materially improving Viscofan's free cash flow and returns on equity. So far the market hasn't responded to this, likely because it will take time for contracts to be renewed in the U.S. The shares today [at a recent price of €54] are cheap relative to history at a 15x trailing P/E and a 14x forward P/E, and we expect as those contracts get favorably renewed that earn-

Chris Garsten, Charles Glasse

Sources of Inspiration

It's not uncommon for a big promotion to jump-start a career, but Chris Garsten put an unusual spin on that when working as an equity analyst in London for Credit Suisse in 2000. His portfolio-manager boss had resigned and Garsten was offered the position, prompting him to resign as well. "The Chief Investment Officer took the view that fund managers were simple folk that were better off more or less matching the index," he says. "I wanted something a bit more interesting than that."

The following year he launched with colleague Charles Glasse the Waverton European Capital Growth Fund, now owned by U.K.-based investment manager W1M. They target what they consider "reforming" companies whose futures – often because of structural industry changes – look much better than their pasts. The value angle is to try to sign on adequately in advance of the reformation bearing fruit. "The first stock I found as a professional investor was a Dutch software company called Volmac, whose share price promptly halved," says Garsten. "I thought it was the future of the world, but so did everybody else. That was an important lesson on being very mindful of what you pay and limiting downside."

ings are going to surprise on the upside going forward.

There's been a lot going on in the global chocolate market. How do you see that working to the favor of portfolio holding Barry Callebaut [Zurich: BARN].

Garsten: This is a Swiss-Belgian cocoa processor and chocolate manufacturer that over the years has been an excellent profit compounder but in recent years has been hit by a massive rise in cocoa prices. That increase was prompted by a significant decline in cocoa-bean supply from top producing regions in Ivory Coast and Ghana, a result of an unusually bad incidence of crop disease as well as poor economic conditions in those countries for farmers. As rising prices impacted consumer demand, Barry Callebaut got hit with a perfect storm of sharply increased input costs and a meaningful decline in customer orders.

It takes time for things like this to work themselves out, especially in a market like this where it takes four years from planting a tree to harvesting it. But high cocoa prices have been absorbed into the supply chain, and the demand response and some new cocoa-bean supply coming on has started to bring prices down. Barry Callebaut's profitability should start to recover from that, and there's also a second story working here in that management has been implementing a major manufacturing overhaul and cost-cutting exercise. As the cocoa industry returns more to normal and the efficiency drive shows tangible results, on our normalized earnings estimates the stock today [at just under 1,100 Swiss francs] is very cheap.

Describe your broader investment case for Spanish stainless-steel producer Acerinox [Madrid: ACX].

Glasse: This a position we put on in the first quarter of this year, which may seem like unusual timing given concerns about the global economy but we believe the company is well placed to significantly improve its profitability.

Acerinox is one of the western world's biggest producers of stainless steel, a business in which it and other European companies – including Outokumpu [Helsinki: OUT1V], Aperam [Amsterdam: APAM] and the privately owned Terni – are among the most important players. The U.S. market has already consolidated, with Acerinox the market leader with a 35% share and Outokumpu the #2 with just over 20%. Acerinox's North American Stainless facility in Kentucky is the largest integrated stainless-steel plant in the U.S.

Geopolitics is likely to play an important role in where the stainless-steel industry is headed. The largest Western producers have been shifting their product mixes to higher-margin specialty grades, but they still face heavy competition from Asian competitors, often Chinese, who use cheap and highly polluting pig nickel in their products to sell at discounted prices. The U.S. business has been more protected by tariffs and Acerinox can make good money there given the resulting higher prices for stainless steel, but it is at best breakeven in Europe where the regulatory protection is lower.

That's triggered a couple responses. One, Acerinox is expanding more into

INVESTMENT SNAPSHOT

Acerinox
(Madrid: ACX)

Business: Global manufacture, processing and sale of stainless-steel products; market leader in the U.S. through its Kentucky-based North American Stainless subsidiary.

Share Information
(@10/30/25, Exchange Rate: $1 = €0.86):

Price	**€11.51**
52-Week Range	€8.30 – €12.62
Dividend Yield	5.3%
Market Cap	€2.87 billion

Financials (TTM):

Revenue	€5.69 billion
Operating Profit Margin	2.9%
Net Profit Margin	1.6%

Valuation Metrics
(@10/30/25):

	ACX	S&P 500
P/E (TTM)	31.0	25.6
Forward P/E (Est.)	13.1	22.1

Largest Institutional Owners
(@6/30/25 or latest filing):

Company	% Owned
Vanguard Group	3.8%
Dimensional Fund Adv	2.7%
Norges Bank Inv Mgmt	1.9%
Capital Research & Mgmt	1.7%
BlackRock	1.5%

Short Interest (as of 10/15/25):

Shares Short/Float	n/a

ACX PRICE HISTORY

THE BOTTOM LINE

Geopolitics is likely to play a key role in the stainless-steel industry's future, says Charles Glasse, and the company now operating in a more consolidated market is well positioned to benefit from resulting new regulations. But the stock market has yet to pay much attention, he says, pricing the company's shares at 6x his normalized earnings estimate.

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

high-performance alloys and helping consolidate that business, most recently through the acquisition of Indiana-based alloy company Haynes International in a deal completed in November of last year. The European manufacturers are also speaking of one mind about the need for government action against cheap Chinese imports, which we expect to be enacted through some combination of higher tariff rates, stricter import quotas and expanded carbon border taxes on imported stainless steel. The result should be less price discounting in Europe and greater operating leverage for the European producers who fill incremental production capacity as less stainless comes in from outside Europe. Another maybe shorter-term benefit is that President Trump's trade war has triggered fiscal stimulus in European infrastructure, a steel-intensive sector.

How do you see all this translating into upside for the stock, now trading at around €11.50?

Glasse: The shares today on consensus forward estimates trade at only 13x earnings, with a dividend yield of over 5%. We don't consider that valuation at all aggressive, and the optionality on the upside comes from significant profit improvement as the half of the business in Europe that is making no money moves over the next few years to operating profitability similar to the high margins currently in the U.S. On our earnings-per-share estimates a few years out the stock currently trades at a P/E of closer to 6x.

From stainless steel to paper and packaging products, explain the industry dynamics you see working in favor of Smurfit Westrock [SW].

Charles Walker: The paper and packaging industry has gone through a long period of consolidation, more pronounced in the U.S. than in Europe. Two titans have emerged in America, the first of which is International Paper [IP], whose most recent acquisition of competitor DS Smith closed in January of this year. That followed on the heels of Ireland-based Smurfit Kappa's purchase of U.S.-based Westrock in July of last year. These two players now control 70% of the corrugated box market in the U.S. and roughly half of that market in Europe. Smurfit Westrock's current business mix is roughly 60% corrugated boxes, 17% containerboard, 13% paper and 10% consumer packaging and other products.

The dynamic here is not dissimilar to what Charles described for Acerinox. In this case, Smurfit has chugged away in Europe with solid profitability and 8-9% earnings growth for the past decade, while in Westrock it's taken on a poorly run business with low profitability. Our thesis is that the industry consolidation coupled with Smurfit's more effective management will result in materially higher profitability for the company in America, which now accounts for roughly 55% of the overall revenue.

Westrock had a significant number of uneconomic contracts, often large deals where they were willing to take losses on one part of the contract to secure additional business that they expected to be more profitable. That generally hasn't worked, and Smurfit is now looking to

INVESTMENT SNAPSHOT

Smurfit Westrock
(NYSE: SW)

Business: Based in Ireland, manufactures, distributes and sells paper, containerboard, corrugated containers and other paper-based packaging products worldwide.

Share Information (@10/30/25):

Price	**36.04**
52-Week Range	35.87 – 56.99
Dividend Yield	4.6%
Market Cap	$18.77 billion

Financials (TTM):

Revenue	$31.14 billion
Operating Profit Margin	7.1%
Net Profit Margin	2.4%

Valuation Metrics
(@10/30/25):

	SW	S&P 500
P/E (TTM)	53.2	25.6
Forward P/E (Est.)	11.4	22.1

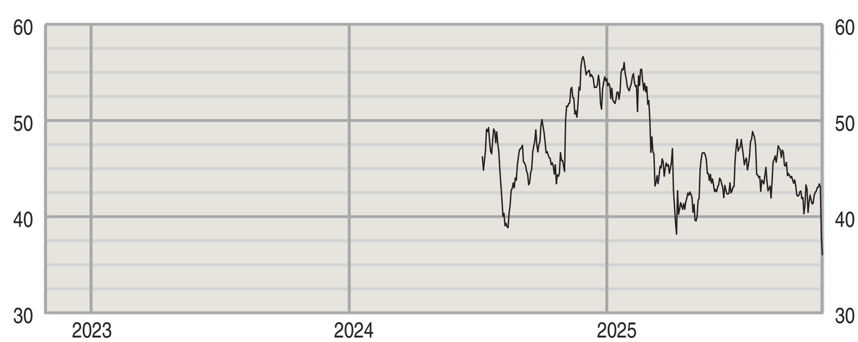
Largest Institutional Owners
(@6/30/25 or latest filing):

Company	% Owned
Vanguard Group	15.4%
BlackRock	8.0%
Capital Research & Mgmt	5.3%
State Street	4.0%
TIAA-CREF	3.7%

Short Interest (as of 10/15/25):

Shares Short/Float	4.0%

SW PRICE HISTORY



THE BOTTOM LINE

As four big players through acquisition have now become two, Charles Walker expects the industry to go from being "volume junkies to price junkies" and improve profitability. While this will take time, he thinks the company can generate 15% annual earnings growth over the next five years, not reflected, he says, in a stock trading at 11x forward earnings.

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

sign deals that are profitable at each stage of the value chain starting with paper, through corrugated boxes, to printed displays and consumer packaging. Importantly, International Paper is doing the same thing. This process will take some time as loss-making contracts roll off, but Smurfit management expects overall operating profitability within the next two to three years to move back to the 10%-plus levels achieved in the past from closer to 7% today.

Is there anything of interest going on in the broader global paper and packaging business?

CW: There has been a well-documented structural decline in the demand for printing paper and then a big countervailing trend toward the use of cardboard packaging driven by e-commerce. We think much of that has normalized, so the big thing we're counting on as four big players have gone down to two is that they are moving from being volume junkies to price junkies, which should be much more profitable. We also believe the two big players can continue to expand further up the value chain in competing with commercial printers for consumer-packaging and other marketing and promotional-based business. They can offer one-stop shopping that printers will find increasingly difficult to compete with.

How are you looking at valuation from today's $36 share price?

CW: It won't turn on a dime, but we believe that just getting rid of the loss-making sales in the U.S. can support annualized 15% earnings growth over the next five years. For that you're paying 11x consensus forward earnings and get a 4.5% annual dividend yield. If earnings come through as we expect, the shares could rerate from today's levels, but we wouldn't need that to be happy with the IRR from today's price.

Clothing retailer Inditex [Madrid: ITX] would seem to be a somewhat out-of-character idea for you. What attracted your interest in it?

Glasse: You're right to wonder how clothing retail would ever be interesting to us as investors focused on capital cycles. Since when is clothing a supply-constrained industry? But the idea is very much focused on the evolution of the industry and the company's place in it.

Most people know Inditex as a retailer that grew like a weed with a formula at Zara and its other brands that pioneered the fast-fashion concept. We've been to their headquarters in Spain and it's fascinating to watch how they gather data and information from their stores and well-developed online operation to spot trends that they then through their incredibly responsive supply chain turn quickly into products in stores. It's a competitive advantage that others have found difficult to match, translating into higher sell-through and less need for discounting to move inventory. The company's gross margins are in the high-50s, vs. closer to 40% for most competitors. Operating margins are high, in the 18-19% range, and the business generates abundant free cash flow, 90% of which is paid out as dividends.

INVESTMENT SNAPSHOT

Inditex
(Madrid: ITX)

Business: Global retailer of clothing, footwear, accessories and household products through physical stores and online; top brands are Zara, Bershka and Stradivarius.

Share Information
(@10/30/25, Exchange Rate: $1 = €0.86):

Price	**€47.87**
52-Week Range	€40.80 – €56.34
Dividend Yield	3.4%
Market Cap	€149.10 billion

Financials (TTM):

Revenue	€38.92 billion
Operating Profit Margin	19.5%
Net Profit Margin	15.1%

Valuation Metrics
(@10/30/25):

	ITX	S&P 500
P/E (TTM)	25.3	25.6
Forward P/E (Est.)	23.6	22.1

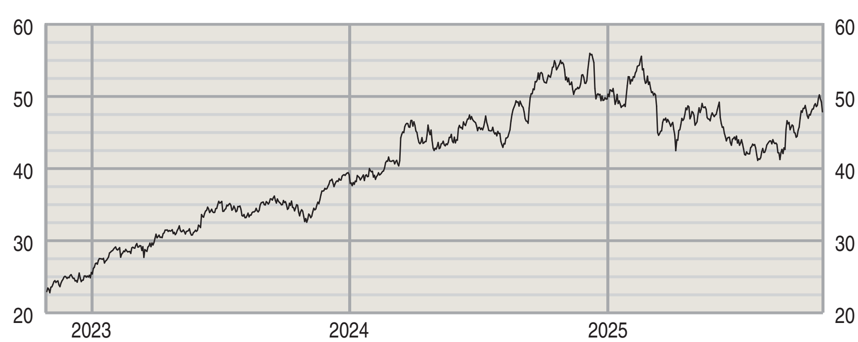
Largest Institutional Owners
(@6/30/25 or latest filing):

Company	% Owned
Capital Research & Mgmt	2.5%
Vanguard Group	1.9%
BlackRock	1.6%
Norges Bank Inv Mgmt	0.8%
Fidelity Mgmt & Research	0.6%

Short Interest (as of 10/15/25):

Shares Short/Float	n/a

ITX PRICE HISTORY



THE BOTTOM LINE

The company coming out of Covid largely put the brakes on store growth and pursued initiatives to improve the effectiveness of its existing base, says Charles Glasse. It's now poised to grow more rapidly and can deliver 10%-plus earnings growth on a fairly sustainable basis, he says, a prospect he doesn't think is currently priced into the stock.

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

Coming out of the pandemic there was actually a significant reduction in clothing stores as many didn't reopen after lockdowns ended. You also saw the rise of very cheap online Chinese competitors like Shein and Temu. Inditex used that period to largely put the brakes on its store growth and to improve the effectiveness of the existing store base. They have been working to improve in-store customer service, which had been a criticism particularly in the U.S. They've moved at the margin to improve product quality while still offering excellent value for the money. While net store count hasn't grown, they have shut down lower-performing outlets in less-desirable locations and added stores in more prime locations. They've also continued to invest in the back end in logistics and distribution, to maintain their advantage in responding quickly to consumer demand.

All of this we believe has been very well executed and sets Inditex up to start growing again. It still generates 65% of its revenues in Europe, but management sees significant potential to increase market share elsewhere, particularly in Asia Pacific countries (now 15% of sales) and in North America (now 9% of sales). The growth potential in the U.S. has improved with the Trump administration's closing of a regulatory loophole that had allowed companies like Shein and Temu to ship low-cost products directly to U.S. consumers tariff-free.

Are new tariffs otherwise a threat to the company's international expansion?

Glasse: We consider it less of an issue for Inditex than for most of its peer competitive group. Most of its products are sourced in Europe, which generally can be expected to face lower tariffs than imports from China, where a lot of clothing is manufactured.

What upside do you see in the stock from today's price of around €48?

Glasse: The shares have basically been flat this year and currently trade at just under 24x estimated 2026 earnings. If you put some reasonable leverage on the balance sheet and bought back shares – the company currently has no net debt – that would bring the multiple down closer to 18-19x. We think that's quite attractive for a business we believe can compound earnings per share at 10%-plus on a fairly sustainable basis.

Is company founder Amancio Ortega – who has never been a fan of buying back shares – still actively involved?

Glasse: He's still the majority shareholder and as we understand it goes to the office regularly and has a desk in the middle of the main production floor. But he stepped down as Chairman in 2011, a position currently held by his daughter in a non-executive capacity, and he is no longer involved in day-to-day decision-making. The transition in operational management happened over an extended period and we believe has been very well done.

Describe some recent holdings that haven't worked out and the reasons behind.

Glasse: We exited at the end of last year a position in Husqvarna [Stockholm: HUSQ.B], which is a global leader in outdoor power equipment like lawn mowers, chainsaws, trimmers and leaf blowers. If you're a golfer, you may have seen at some point on the course one of their robotic mowers, which are quite impressive technologically and representative of the premium products the company makes.

Typically when we identify an industry as interesting our bias is to invest in industry leaders with the strongest market positions. That was the case here, but where that unfortunately can go wrong is if the market position turns out not to be as strong as we believe. Our thesis for Husqvarna hinged on the quality of its products justifying the premium prices it charges, but the company has been significantly challenged by Chinese competitors who have reverse-engineered its products and sell them online at heavily discounted prices. Customers may ultimately conclude quality matters and is worth the higher price, but for the moment Husqvarna is facing a real competitive issue. [*Note*: HUSQ shares currently trade at around 46.25 Swedish kronor, off 33% from their 52-week high last November.]

Garsten: Charles mentions industry leaders, and I can give an example where our not going with the leader has led to some frustration. Smaller companies taking on bigger ones in an evolving industry can be great if the big companies are asleep and not reacting properly. But if the big company is alert, it can be quite difficult for challengers that don't have similar economies of scale.

The example I'm thinking of is a Swedish company called Elekta [Stockholm: EKTA.B] that has a quite interesting radiation oncology product for treating cancer. The issue is that its primary competitor in the U.S., now a division of Siemens Healthineers called Varian, is at least twice its size and can spend far more on distribution, marketing, and research and development. We still believe it may one day happen, but Elekta so far hasn't been able to punch its way through to capture the market share we believe it eventually can. [*Note*: Elekta's share price, as high as 125 Swedish kronor in 2021, recently closed below 49.]

Is there a case to be made that your European capital-cycle approach is particularly right for the times?

Garsten: We've been at this long enough to know that we have no real clue what the stock market is going to do next. What we do know is that our strategy even in boring old decrepit Europe has been able to compound well above the global market return since inception. We're finding the same types of ideas at the same rate, so we're hopeful we can continue to do that going forward. VII