ValueInvestor INSIGHT
The Leading Authority on Value Investing
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Taking What's Given

Hotchkis & Wiley's David Green, Doug Campbell, Dan McKenzie and Noah Mayer explain what catches their eye in potential ideas, how they've formalized the assessment of risk in their research process, why they've been able to hold on to their investment in Microsoft, and why they see mispriced value in U-Haul, Workday, Schlumberger, F5 and Ericsson.

INVESTOR INSIGHT



David Green
Hotchkis & Wiley

Investment Focus: Seeks companies that are underearning relative to "normal," or that are at "normal" but the market doesn't appear to believe that's sustainable.

We haven't run all the numbers, but it's hard to imagine a set of "focus" ideas presented in our feature interviews having performed as well as those offered up by David Green in May of 2020. Had you invested $10,000 in each idea – Evercore, TE Connectivity, pre-split-up General Electric and News Corp. – that $40,000 portfolio today would be worth $200,000. "I hope you're not counting on our being able to repeat that," he says.

One can hope! The all-cap Hotchkis & Wiley Value Opportunities strategy Green manages has earned a net annualized 13.0% since 2002, vs. 9.4% for the Russell 3000 Value index. While pandemic-era bargains are scarce, he's seeing value upside in such areas as truck rental, software, energy services and mobile networks.

Could one boil down the basic Hotchkis & Wiley value-investing approach like this: Look for companies that are underearning relative to what you consider normal, buy their stocks cheaply against that estimate of normal, and own them as the shares increase significantly on a return to normal?

David Green: It's maybe a bit more difficult than you make it sound, but that is certainly an important part of our approach. There are also times, though, when we'll buy companies that are at what we consider normal and for whatever reason people don't think it's sustainable. Or we don't believe investors appreciate the quality of a business and will eventually pay up for that when it proves out – these types of situations are interesting investments as well.

I can give some examples in two areas we're finding interesting today, energy and technology. With energy, our estimated normal oil price today is around $75 per barrel, which is where oil producers can earn a fair return on their investment in production. When market prices are below that, supply won't come on and prices will tend to revert up. When market prices are above that, more supply will likely come on and prices will tend to revert down. A lot of times in individual companies the market extrapolates the current environment forever, which can cause stocks to be mispriced. This is a typical dynamic in cyclical businesses, and today with oil prices below $65 per barrel we're finding the shares of companies like oilfield-services provider Schlumberger [SLB] and others trading cheaply relative to what we consider earnings power.

A very different situation would be in a software business like Workday [WDAY], which has an excellent global position in selling human-capital-management software to *Fortune* 500 companies. We think it's earning below normal because it's spending a lot on sales, marketing and research and development expanses that are running through the income statement today for future benefit tomorrow. When those benefits come and the company slows down its investment spending, margins will be much higher than they are today. But the market sees slowing revenue growth today and prices that into the stock, which is what is giving us the opportunity to invest at what we believe is an attractive price.

One other area we think is interesting is advertising-related stocks, an example of which would be Havas [Amsterdam: HAVAS], which was spun off from Vivendi last December. The company may be underearning a little bit, but the bigger issue for the stock is the narrative that AI is a huge threat to the ad-agency business. Our view is that while AI may facilitate some aspects of what agencies do, it will not be particularly well suited to produce the core creative advertising, marketing and promotional content that humans can. This is a case where we're not looking for current margins and earnings to revert, but we believe they'll persist much better than the market seems to be pricing into the stock. [*Note*: Havas shares at a recent €1.55 trade at 7.4x estimated forward earnings.]

Is screening based on valuation against some estimate of normalized earnings an important part of your idea-generation process?

DG: Screening is an important tool we use all the time, looking at what's most attractive from a valuation standpoint. We do typically look at it against some estimate of normal earnings, either our own explicit estimate if our work on the company is fully up to date, or by using some combination of historical and peer financial performance to arrive at a rough estimate of what's normal.

Our centralized research effort is organized around sector teams made up of analysts and portfolio managers. (I'm on the consumer, healthcare and technology sector teams.) So a lot of ideas come organically from our industry analysts who have a lot of experience just doing the day-to-day research in their space and/or noticing something change that deserves a closer look. We'll talk later abut F5 [FFIV], which sells enterprise application networking and security software and data-center appliances. Our analyst was looking at another company in the industry that led him to look at F5, which had software-like 80% gross margins but seemed to be valued by the market like a hardware company.

Another example would be UnitedHealth [UNH], a business our healthcare sector team knew very well but one we hadn't previously owned because the stock was typically too expensive. The headlines on the company turned very negative and in April it had its first earnings miss in 10 years, triggering a significant selloff in the shares. This is the largest player in its industry with a very strong network and an excellent balance sheet, and one key thing about health insurance is that you're able to reprice your book of business every year. We concluded the market was extrapolating the company's mispricing of risk further out than we considered reasonable, allowing us to buy the shares at what we thought was a compelling valuation. [*Note*: Up from their lows in August, UNH shares at around $345 are still down 45% from their highs last November.]

You talk quite a bit about the risk-rating component of your research process. Describe what that is and why you consider it so important.

DG: There are four critical components into our deciding whether to own a stock and the weight at which we'd own it. The first is valuation, which in and of itself is a risk control – if you're buying something at a low valuation you have a margin of safety. But when we've made mistakes, they've generally been related to the three other areas we emphasize in our risk-ratings process: business quality, balance sheet and governance.

ON MICROSOFT:

It's the most highly valued stock we own, but it's also the highest-quality business in the portfolio by a long shot.

As a result, we have formalized the assessment of those three areas as part of our peer-review process, where the sector teams rate each company on a scale of 1 to 5, with 1 being the lowest risk and 5 being the highest. We've found this to be a very important guard against value traps, making us less likely to be seduced by mere cheapness while not sufficiently considering other risks.

We spoke last time [*VII*, May 29, 2020] about General Electric, at a time when key parts of the economy were shut down and there was still a lot of skepticism about whether the company could be turned around. The stock was very cheap against our estimate of normal earnings, but what made the idea particularly compelling was that we believed it had strong positions in fundamentally good businesses long-term, was significantly improving its balance sheet, and finally had the right governance under CEO Larry Culp. We couldn't have expected it to turn out as well as it has, but we only had the conviction we did because the idea went so far beyond just being a cheap stock. [*Note*: An investment in GE in May of 2020 would now consist of holdings in three companies, GE Aerospace [GE], GE HealthCare [GEHC] and GE Vernova [GEV]. The value of that investment at today's share prices would be 9x the original amount.]

Microsoft [MSFT] is the only company in the portfolio that earns the highest "1" rating in each of the three risk categories. As time has gone on we've done a fairly good job of re-underwriting our estimates of normal earnings power, but the top risk rating is one of the reasons we've been able to hold onto the stock even as the valuation has increased so much. It's the most highly valued stock we own, but it's also the highest-quality business in the portfolio by a long shot. We think their business development path is so clear and their competitive position is so strong that we can look five years out with confidence in what they'll be able to achieve. If they deliver on that, we still think the shares [at today's $515] will prove to be attractively priced.

Why are you high on the investment prospects today for moving rental company U-Haul [UHAL.B]?

DG: This is the type of business we like because it's dominant in its market. U-Haul has an unmatched network, with 23,000 truck-rental locations in the U.S. – more locations than there are McDonald's or Starbucks – and 90% of the U.S. population is within five miles of a store. It has amazing brand awareness and doesn't really have to advertise because all its trucks on the road serve as advertising. Its next-largest competitor for people wanting to rent a truck to move things is Penske, which is one-tenth the size.

The company is also successfully building out a self-storage business – now generating about 15% of total revenues – where it's currently #3 in the market behind Public Storage [PSA] and Extra Space Storage [EXR]. This is also an excellent

business, with low maintenance capital spending once you put up your box and people start storing stuff in it. U-Haul has an inherent advantage in cross-selling self storage to its moving customers, and in many cases has had the land on hand to build new storage facilities. They're still in growth mode here and adding capacity, which has meant their utilization levels, currently just under 80%, are below what on a normalized basis should be well into the 90s.

Are economic or housing-market trends important to consider here?

Dan McKenzie: The business hasn't typically been particularly cyclical. They benefit at the margin from greater population mobility, which tends to correlate with the health of the economy and the job market. With the current housing affordability pressures, they benefit both from more people renting, who have a greater propensity to move, and on the self-storage side because people are downsizing. Self-storage usage per capita is growing across the U.S.

We estimate the company can grow revenue at 7% or so per year on a normalized basis through the cycle. With operating leverage, high incremental margins in self storage, and an expectation that self-storage margins expand as that business matures, we think that can translate into 10-12% annual earnings growth. For the time being they're reinvesting all their capital, so we're not modeling any capital return through either dividends or share buybacks.

At today's price for the non-voting "B" shares of around $51.50, how cheap do you consider the stock?

DM: If we assume significantly improved profitability in the self-storage business and adjust for the fact that the company's maintenance capital spending is running well below current depreciation and amortization, we estimate normalized earnings at around $6.40 per share. At the 17-20x earnings multiple of normal EPS we believe this business warrants, the stock would trade at $110 to $130 per share.

The Shoen family through its a "A" share ownership still has effective control of the company. Is that a concern?

DM: We own the B shares because they're more liquid and trade at a discount, and we also generally consider the family's stewardship so far to have been excellent. They have a fantastic history of capital allocation, don't overpay themselves, and have consistently been aligned with all shareholders in focusing on creating long-run value. If we had a criticism, it would be that they haven't yet shown any interest in returning capital to shareholders. That hasn't been much of an issue as they've had opportunities for internal reinvestment, but it could become more of a concern as time goes on.

DG: We don't set our fair-value estimates this way, but it's interesting to note here that if you valued U-Haul's storage business per square foot of capacity at the current levels of Public Storage and Extra Space Storage, you would cover a very high percentage of the overall company's

INVESTMENT SNAPSHOT

U-Haul
(NYSE: UHAL.B)

Business: Leading U.S. provider of rental trucks used to move primarily household belongings long and short distances; also the #3 U.S. provider of self-storage services.

Share Information (@9/29/25):

Price	**51.64**
52-Week Range	49.82 – 72.79
Dividend Yield	0.0%
Market Cap	$10.21 billion

Financials (TTM):

Revenue	$5.91 billion
Operating Profit Margin	11.5%
Net Profit Margin	5.3%

Valuation Metrics
(@9/29/25):

	UHAL.B	S&P 500
P/E (TTM)	36.0	25.3
Forward P/E (Est.)	54.9	21.9

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

Company	% Owned
Vanguard Group	5.1%
Yacktman Asset Mgmt	3.2%
BlackRock	3.0%
Fidelity Mgmt & Research	2.2%
Dimensional Fund Adv	1.9%

Short Interest (as of 9/15/25):

Shares Short/Float	2.6%

UHAL.B PRICE HISTORY



THE BOTTOM LINE

The company is complementing its dominant moving rental business by investing heavily in a promising self-storage division that Dan McKenzie expects can drive much higher overall earnings power in the future. At what he would consider a reasonable 17-20x his normalized earnings estimate of $6.40 per share the stock would trade at $110 to $130.

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

current enterprise value, with a business that today generates only 15% of total revenues.

Explain your broader investment case for enterprise-software company Workday, which you mentioned earlier.

DG: The company is a leader in cloud application software for back-office business functions, primarily for human capital management but also for financial management and enterprise resource planning (ERP). Its software is used by 65% of the *Fortune* 500 and once embedded in companies' workflows is hard to switch out. It has 97-98% gross revenue retention, 80% gross margins, and we believe it should have 35% normal operating margins. It still has a long runway for growth as customers continue to move back-office functions more to the cloud, as it expands internationally, and as it adds to its offerings for medium-sized businesses.

The crux of our case is that the operating margins on this business today aren't close to what we believe they will be as the company matures and spends less to grow. Value investors can be slow to give companies like this the benefit of the doubt on margins because they haven't seen them earn at that level yet, but high-quality software businesses with 80% gross margins, high revenue retention and still-attractive secular-growth prospects regularly get to the point where they're earning 35% operating margins or better. For Workday we believe it's just a matter of time.

For any software business you have to consider the potential impacts of AI. Where do you come out on that front here?

Doug Campbell: There are two primary elements to the bear case for application-software providers as it relates to artificial intelligence. One is that AI is going to replace knowledge workers, creating a headwind for software companies like Workday with seat-based business models. This may be possible over time and it's something to keep an eye on, but we're not yet seeing that show up in the data and we generally believe this fear is overblown. Even total jobs for software developers, supposedly one of the first areas to be replaced by AI, are still growing.

The second main concern is that advanced AI-powered coding tools can replicate software products like Workday has at a very low cost, bringing increased competition. Our view is that when you look at the total effort that goes into building a software business, a very small percentage of that effort is actual developers sitting in seats writing code. Workday's reputation, its relationships with customers, and its products' functionality have been built over decades. We don't think the barriers to competitive entry it has are that much diminished by someone offering a 20% discount. This is another risk we believe is overstated.

The company shows signs of actually being a beneficiary of AI. They've already developed a variety of AI-enhanced add-on modules to their products that customers are adopting. Early indications are that AI is enhancing value to their customers and that the company can monetize that.

INVESTMENT SNAPSHOT

Workday
(Nasdaq: WDAY)

Business: Provider of cloud-based software used to help manage back-office business functions in human resources, financial management and enterprise resource planning.

Share Information (@9/29/25):

Price	**247.69**
52-Week Range	205.33 – 294.00
Dividend Yield	0.0%
Market Cap	$65.86 billion

Financials (TTM):

Revenue	$8.96 billion
Operating Profit Margin	8.6%
Net Profit Margin	6.5%

Valuation Metrics
(@9/29/25):

	WDAY	S&P 500
P/E (TTM)	114.6	25.3
Forward P/E (Est.)	26.0	21.9

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

Company	% Owned
Vanguard Group	7.9%
BlackRock	7.0%
State Street	3.6%
T. Rowe Price	2.3%
Eagle Capital Mgmt	2.2%

Short Interest (as of 9/15/25):

Shares Short/Float	4.7%

WDAY PRICE HISTORY



THE BOTTOM LINE

The crux of David Green's investment case for the company is that its operating profitability today isn't close to what it will be as the business matures and requires less spending on growth. At what he would consider – for a company of this quality – a fair 24x his calendar-year 2026 estimate of operating profits, the shares would trade at around $380.

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

What upside do you see in the shares from today's price of around $248?

DC: Revenues aren't growing as fast as they were, but we still believe they can grow at a low-teens percentage annually and eventually produce a 35% normal EBIT margin. This is one of the highest-quality businesses we own and we'd expect it to trade at a material premium to the S&P 500. At 24x our estimate of calendar-year 2026 EBIT, that would translate into a share price of around $380.

We also think the downside risk from today's share price should be limited. If you look at the prices private-equity firms typically pay for comparable software providers, they pay a multiple of revenues that is not far from where Workday currently trades, and we think it's a better company than the average deal comp we've seen.

Sticking with the technology sector, what do you think the market appears to be missing in F5 [FFIV]?

DC: F5 sells application networking and security software and appliances. Think about the banking app on your phone. You log in and can access a variety of applications for checking your balance, making a deposit, making a credit-card payment or paying a bill. All of those are separate applications that are running in the company's data center or in the public cloud somewhere. F5's products manage the traffic flowing into and between applications and ensures that the applications are functioning properly, responsive and secure.

As is the case with Workday, removing or changing F5's products once installed is difficult and costly, which results in high customer retention and recurring revenues that are currently about 75% of the total. The main secular driver of growth is simply the proliferation of software applications that enterprises run to conduct their day-to-day business. Another at least medium-term opportunity would come from AI. Most AI-generated workloads today, like those from ChatGPT, run in cloud data centers, but in coming years we're likely to see more enterprise AI investment targeted at companies' private data centers. AI that relies on accessing on-premise data could be a significant driver of increased application traffic for F5 products to manage.

One of the attractions here is that we believe the company continues to be misclassified as a commoditized IT hardware provider. While it does still sell some hardware – in the form of what are called application delivery controllers – that hardware is fully integrated with its software and generates software-like 80% gross margins. We think the fact that many investors consider it a hardware company and that many of the analysts that follow it are hardware analysts weighs inappropriately on the valuation.

F5 traditionally built its business in on-premise enterprise data centers. How has it been impacted as enterprises move more of their data processing to the cloud?

DC: The public cloud created new competition from the hyperscalers like Amazon Web Services and Azure, who offer their own tools for application management.

INVESTMENT SNAPSHOT

F5
(Nasdaq: FFIV)

Business: Manufactures and sells software and hardware used to effectively manage and secure the traffic flowing into and between applications in enterprise data centers.

Share Information (@9/29/25):

Price	**322.66**
52-Week Range	213.24 – 337.39
Dividend Yield	0.0%
Market Cap	$18.66 billion

Financials (TTM):

Revenue	$3.02 billion
Operating Profit Margin	25.2%
Net Profit Margin	22.1%

Valuation Metrics
(@9/29/25):

	FFIV	S&P 500
P/E (TTM)	28.4	25.3
Forward P/E (Est.)	20.5	21.9

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

Company	% Owned
Vanguard Group	12.9%
BlackRock	11.4%
Hotchkis & Wiley	9.1%
State Street	5.5%
Geode Capital Mgmt	3.0%

Short Interest (as of 9/15/25):

Shares Short/Float	3.1%

FFIV PRICE HISTORY



THE BOTTOM LINE

Doug Campbell argues that the company is misclassified by investors as a commoditized IT hardware provider when it is primarily a software business, and the hardware business it does have earns software-like returns. Applying a current-year S&P 500 earnings multiple on his $18-19 normal EPS estimate would result in a stock price of about $425.

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

But F5 has continued to grow through that because most of its customers maintain a fairly complex application architecture, some of it running on-premise and some of it running in the cloud. When you start to get this type of multi-cloud complexity, products from a neutral third party like F5 have proven more efficient and effective in managing application networking needs.

How are you thinking about valuation from today's $323 share price.

DC: By almost any relevant metric this is an above-average-quality business. Revenues are highly recurring, customer relationships are sticky, gross margins are high, and the business model generates a lot of cash. We could make the case that the stock today should trade at an above-average multiple to our normal earnings estimate of $18-19 per share, but even at the current-year S&P 500 multiple of around 23x, the shares would trade at about $425.

One additional potential driver of revenue growth that we haven't built much into our estimates is pricing. F5's biggest independent competitor is a company called Netscaler, which is now part of a private-equity-owned company called Cloud Software Group. Netscaler has been raising prices aggressively and cutting way back on its R&D spending. We don't know how F5 ultimately responds to that, but it should be able to raise prices without much negative effect and at the same time continue to invest in R&D in an effort to take market share.

Describe in more detail your interest in oil-services provider Schlumberger.

DC: The company is rightly known as the best-in-class provider of traditional oilfield services, with the most effective technology for constructing, developing and operating wells. It has the highest market share globally, but more important is its size and scale in certain key geographic markets, which for Schlumberger are primarily non-U.S. and offshore. It focuses on areas where it can add value through innovation and tends to be the service provider of choice for the most complicated and difficult projects. As a result, it has more pricing power and consistently earns industry-leading margins.

Demand for services is driven by capital spending by upstream companies, which obviously is tied to the oil price. With weaker oil prices today – 15% or so below our normalized $75 per barrel price – capex is currently at a lower point in the cycle, pressuring Schlumberger and its competitors this year. As David explained, we don't consider that a permanent condition as supply will have to be added as oil demand continues to grow. The company will benefit from that in general, but incrementally so if capex spending shifts as we expect more toward international and offshore projects where there appears to be the most development potential as U.S. shales mature.

DG: The most exciting part of the company's product offer is the digital side of the business. This includes a wide variety of software and services that allow engineers to create, capture, store and analyze vast amounts of data that helps them better plan where they drill, when they drill and

INVESTMENT SNAPSHOT

Schlumberger
(NYSE: SLB)

Business: Provider of third-party oilfield services used in the planning, construction, development and operation of offshore and onshore oil and gas projects worldwide.

Share Information (@9/29/25):

Price	**35.11**
52-Week Range	31.11 – 46.15
Dividend Yield	3.2%
Market Cap	$53.06 billion

Financials (TTM):

Revenue	$35.48 billion
Operating Profit Margin	17.0%
Net Profit Margin	11.5%

Valuation Metrics
(@9/29/25):

	SLB	S&P 500
P/E (TTM)	12.0	25.3
Forward P/E (Est.)	12.4	21.9

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

Company	% Owned
Vanguard Group	10.1%
BlackRock	7.4%
T. Rowe Price	5.5%
State Street	5.2%
Charles Schwab Inv Mgmt	3.2%

Short Interest (as of 9/15/25):

Shares Short/Float	2.8%

SLB PRICE HISTORY



THE BOTTOM LINE

Benefitting from its technology leadership, a mix shift to higher-margin digital offerings, and strong positions in offshore international markets with high development potential, Doug Campbell thinks the company can increase earnings over the medium term at a low-double-digit annual rate. At 15x his estimate of normal EPS the stock would trade at $57.

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

how they drill. Schlumberger is by far the leader in this area, providing tangible benefits to customers in terms of time saved, cost reduction and operating throughput. This digital business currently generates about $3 billion in annual sales, has operating margins that we estimate at 35-40%, and we believe it can increase operating income at a mid-teens rate for a number of years.

From the recent price of around $35, how do you see all this translating into shareholder value?

DC: We think revenues can grow in the high single digits annually, with operating leverage and a mix shift toward higher-margin digital offerings driving EPS growth into the low double digits. We think that should be valued at least at a 15x P/E, which on our normal earnings estimate of around $3.80 per share would result in a share price of $57.

From oilfield services to mobile networks, what's behind your investment interest in L.M. Ericsson [ERIC]?

Noah Mayer: Ericsson is one of three tier 1 global suppliers, along with Huawei and Nokia, of mobile-network equipment and related software and services used by primarily wireless-telecom customers. Its technology, much of it patent-protected, is central to the effective delivery of wireless services.

This isn't a great business. On the plus side, the big players benefit from economies of scale in R&D and their equipment is largely backward compatible, creating an installed base that is fairly difficult to dislodge. But there's a constant need to develop expensive new technology to support next-generation wireless networks, and the mobile-carrier customers in many developed and emerging markets face cut-throat competition. That can lead customers to put more of a premium on price over quality in buying network equipment, making life more difficult than it would be otherwise for a technology leader like Ericsson.

Even in a difficult market, we think Ericsson has three key ways to improve its operating performance that the market doesn't seem to recognize. First, in its core business we believe it will continue to slowly take market share over time – incumbent network vendors are not easy to displace, but Ericsson's technology investments have led to it taking a point or so of market share per year under current management. Two, the company is turning around its specialized software and services business, which is no longer losing money and that management believes can ultimately earn a high-single-digit margin. Third, we believe the enterprise business that operates mobile networks for large individual companies has the potential to grow and go from losing money to making money in relatively short order.

How do you see all that translating into increased enthusiasm for the U.S. ADR, now trading at around $8.10?

INVESTMENT SNAPSHOT

L.M. Ericsson
(Nasdaq: ERIC)

Business: Manufacture and sale of mobile-network equipment and related software and services used by wireless-telecom providers like AT&T, Vodafone and Deutsche Telekom.

Share Information (@9/29/25):

Price	**8.11**
52-Week Range	6.64 – 8.99
Dividend Yield	2.4%
Market Cap	$27.06 billion

Financials (TTM):

Revenue	SEK 245.86 billion
Operating Profit Margin	6.5%
Net Profit Margin	7.0%

Valuation Metrics
(@9/29/25):

	ERIC	S&P 500
P/E (TTM)	14.8	25.3
Forward P/E (Est.)	14.6	21.9

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

Company	% Owned
Investor AB	9.5%
Hotchkis & Wiley	6.4%
BlackRock	5.1%
Cevian Capital	4.6%
Fidelity Mgmt & Research	4.0%

Short Interest (as of 9/15/25):

Shares Short/Float	1.0%

ERIC PRICE HISTORY



THE BOTTOM LINE

The company has multiple drivers of increased operating performance that Noah Mayer estimates would allow it to generate $1 per share in normalized earnings power. While companies with similar growth and profitability profiles often trade at high-teens multiples, he says, even at 15x his normal earnings estimate the shares would trade at close to $15.

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

NM: The company reports in Swedish kronor, but translating into U.S. dollars [at 9.45 kronor to the dollar] we estimate normal annual revenues at around $27.5 billon. We assume core-equipment operating margins of just over 20%, that the cloud software business improves operating margins from 6% to 10%, and that the enterprise business goes from losing more than $400 million to earning a couple hundred million dollars. All in, we estimate normalized earnings per share at just over $1 per share. There are a number of companies that look like Ericsson that trade at high-teens multiples, but even at 15x our estimate of normal EPS the ADR would nearly double.

We're not at all counting on this, but one market shift that would provide upside optionality here would be if the experience of T-Mobile in the United States – where it invested heavily in becoming a network-quality leader and that paid off in much-improved financial results – became more the global norm than the exception. Were that to happen to any material degree, Ericsson would likely be a direct beneficiary.

When we last spoke the market was in a quite a different place than it is now. How would you describe your general mood as a value investor given the opportunity set you see today?

DG: When we spoke early in the pandemic our portfolio was trading at something like 5.5x our normal earnings estimates. Now that number is just under 10x, which is pretty close to the average over time.

There is still a very large gap between the valuations on value stocks versus growth stocks. Historically when the gap has gotten as wide as it is today, it has reverted and provided a very good tailwind for value investors. We also think at the valuation levels of what we own we're well protected on the downside.

You have to be totally flexible and ready to take advantage of the opportunities the market is giving you. It's always fun and interesting to try to figure out where those opportunities are. VII

VALUE INVESTOR INSIGHT
SEPTEMBER 30, 2025
"INVESTOR INSIGHT: TAKING WHAT'S GIVEN"

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COMPOSITE PERFORMANCE (%) ANNUALIZED as of September 30, 2026

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
H&W Value Opportunities (gross)	5.89	12.97	13.52	18.44	12.87	14.19	13.87
H&W Value Opportunities (net)	5.70	12.34	12.68	17.57	12.03	13.35	13.02
Russell 3000 Value Index	2.31	19.22	23.73	19.97	11.68	11.31	9.98

Commencement of VO Composite: 11/1/02. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. Past performance is no guarantee of future performance.

Investment returns include reinvestment of dividends, interest and capital gains. Valuation is based on trade-date information and stated in U.S. dollars. Net performance results are presented after actual management fees and all trading expenses but before custodial fees. The Value Opportunities strategy's returns for different time periods and market cycles can result in significantly different performance results. An account's investment guidelines, timing of transactions, market conditions at the time of investment and other factors may lead to different performance results. The Composite includes all Value Opportunities discretionary accounts. The Value Opportunities strategy seeks capital appreciation primarily through investments in equity securities, such as common stock, preferred stock and convertible securities, of any size market capitalization, and investment grade and high yield ("junk bonds") fixed income securities. Companies that is believed to have strong capital appreciation potential and may invest in foreign (non-U.S.) securities. Additional performance disclosures are included in the strategy's GIPS Report.

The securities highlighted in this article are intended to be for illustrative purposes only. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice. There is no assurance that the securities discussed will remain in the portfolio or that securities sold have not been repurchased. The securities discussed do not represent the entire portfolio and may only represent a small portion of the portfolio. In the event of new information or changed circumstances, H&W reserves the right to change its investment perspective and outlook and has no obligation to provide revised assessments and/or opinions.

Holdings and/or characteristics are based on a representative portfolio of the Value Opportunities Strategy. This information may vary by portfolio due to different restrictions, cash flows, and other relevant considerations. H&W selected the representative portfolio based on non-performance criteria. The representative portfolio reflects the management style of the strategy, is part of the strategy's composite, and has the longest duration under the Adviser's discretion. Selection of the representative portfolio considers one or more of the following factors, such as the portfolio's investment guidelines/restrictions, cash flow activity, or duration under the Adviser's discretion. The representative portfolio is used for informational purposes only, does not predict future portfolio characteristics, and may differ from other portfolios in the strategy due to asset size, client guidelines, and other variables.

The Russell 3000® Value Index includes stocks from the Russell 3000® Index with lower price-to-book ratios and lower expected growth rates. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The indexes assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on the Global Industry Classification Standard by MSCI and S&P. It is not possible to invest directly in an index.

Investing in foreign as well as emerging markets involves additional risk such as greater volatility, political, economic, and currency risks and differences in accounting methods. Investing in smaller, medium-sized and/or newer companies involves greater risks not associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity. Investing in debt securities typically decreases in value when interest rates rise. This risk is usually greater for longer-term debt securities. A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time. Principal Risks Disclosure for the firm's strategies are described in Part 2A of Form ADV of H&W.

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