



BARROW HANLEY  
GLOBAL INVESTORS™

CASE STUDY:  
INVESTING IN A  
SMALL CAP  
COMPANY



# WHAT IS A SMALL CAP STOCK?

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## LARGE CAP

Russell 1000  
Index



**ExxonMobil**

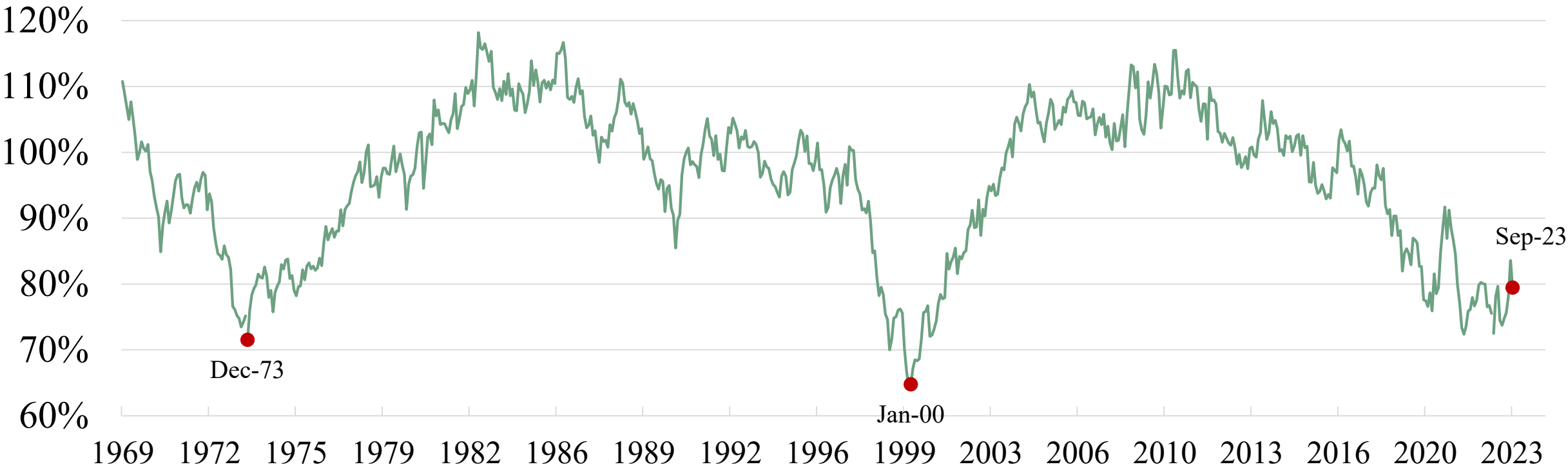
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## SMALL CAP

Russell 2000  
Index



# SMALL CAPS VALUATIONS

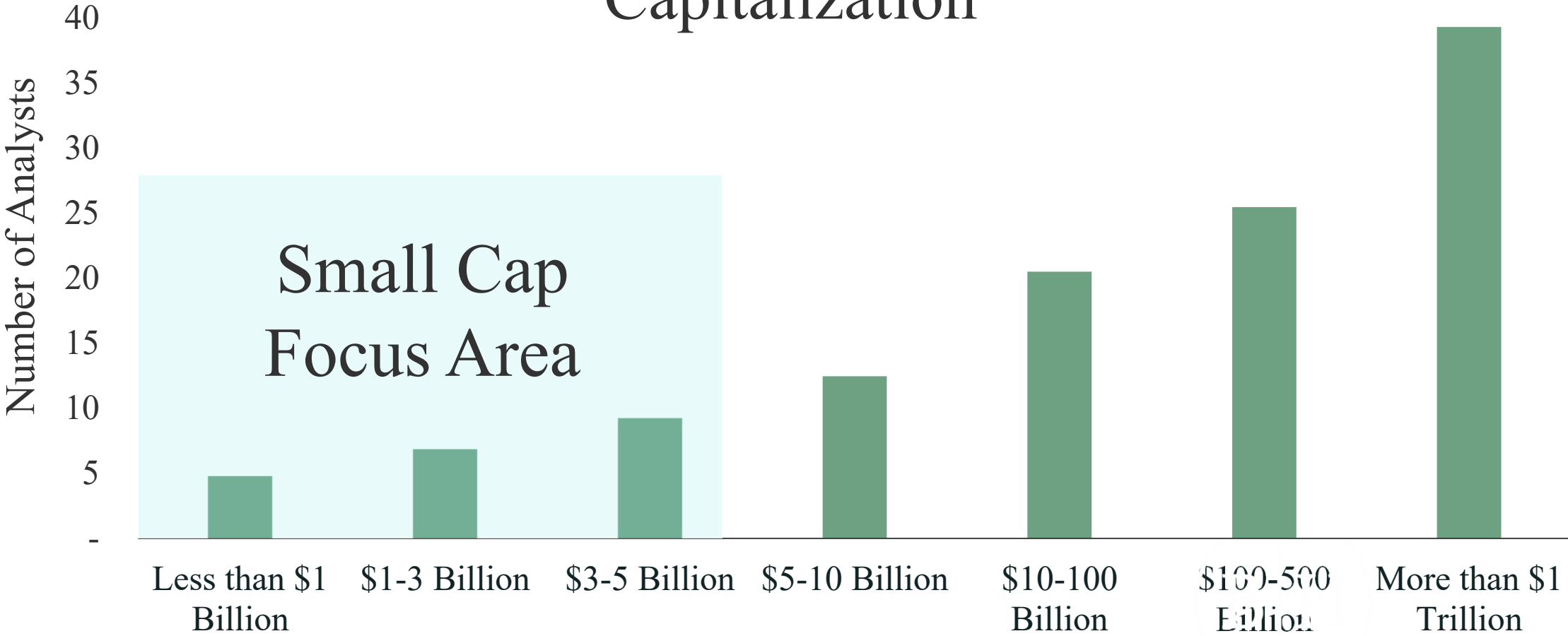


Small Cap P/E Valuations Near Historical Lows Versus Large Caps

Source: Furey Research Partners  
Valuation metric shown is median LTM Price-To-Earnings excluding unprofitable companies

# SMALL CAPS IN THE DESERT

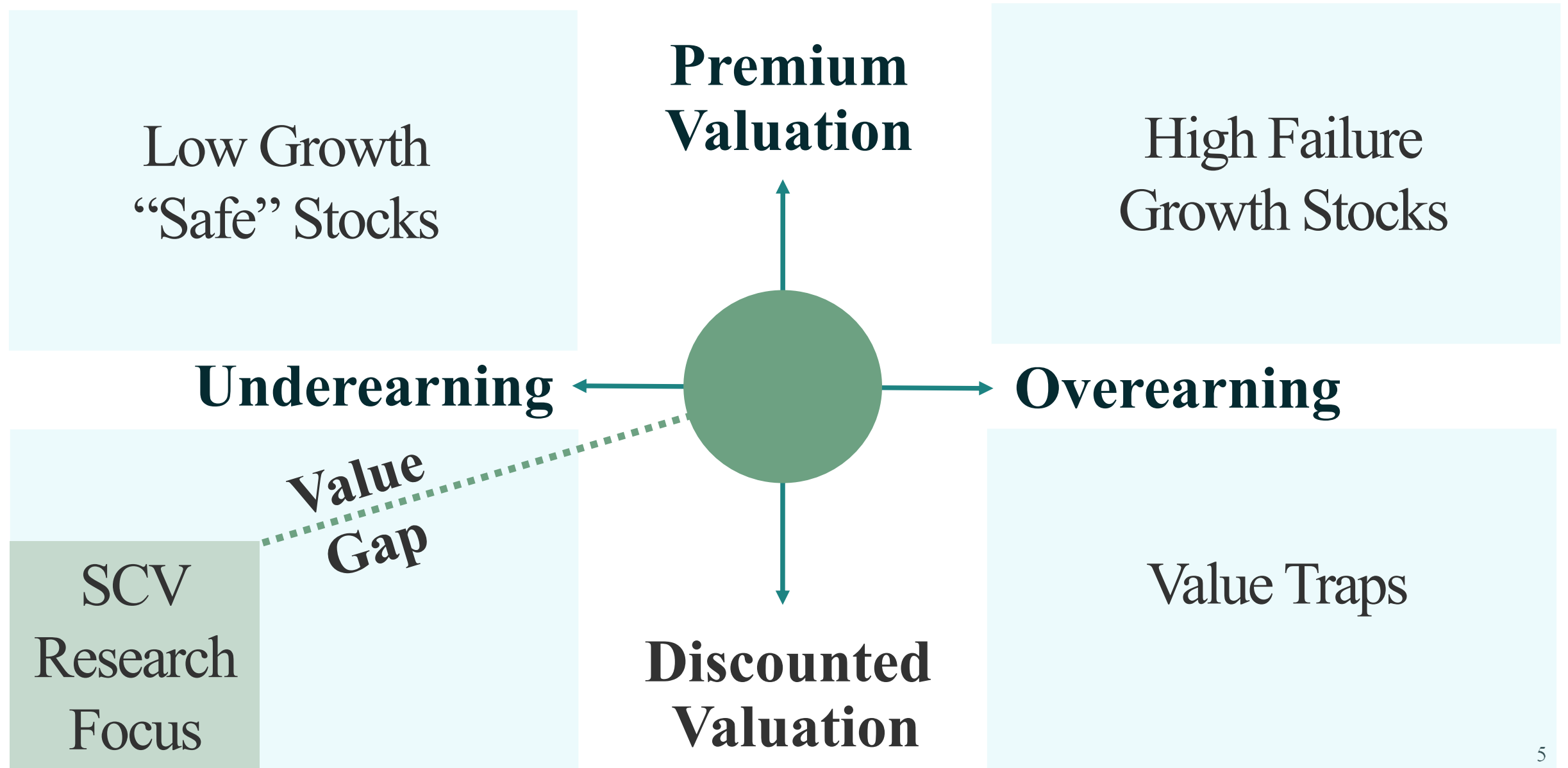
## Wall Street Analyst Coverage By Market Capitalization



Source: Barrow Hanley, FTSE Russell. Constituents of the Russell 3000 Index

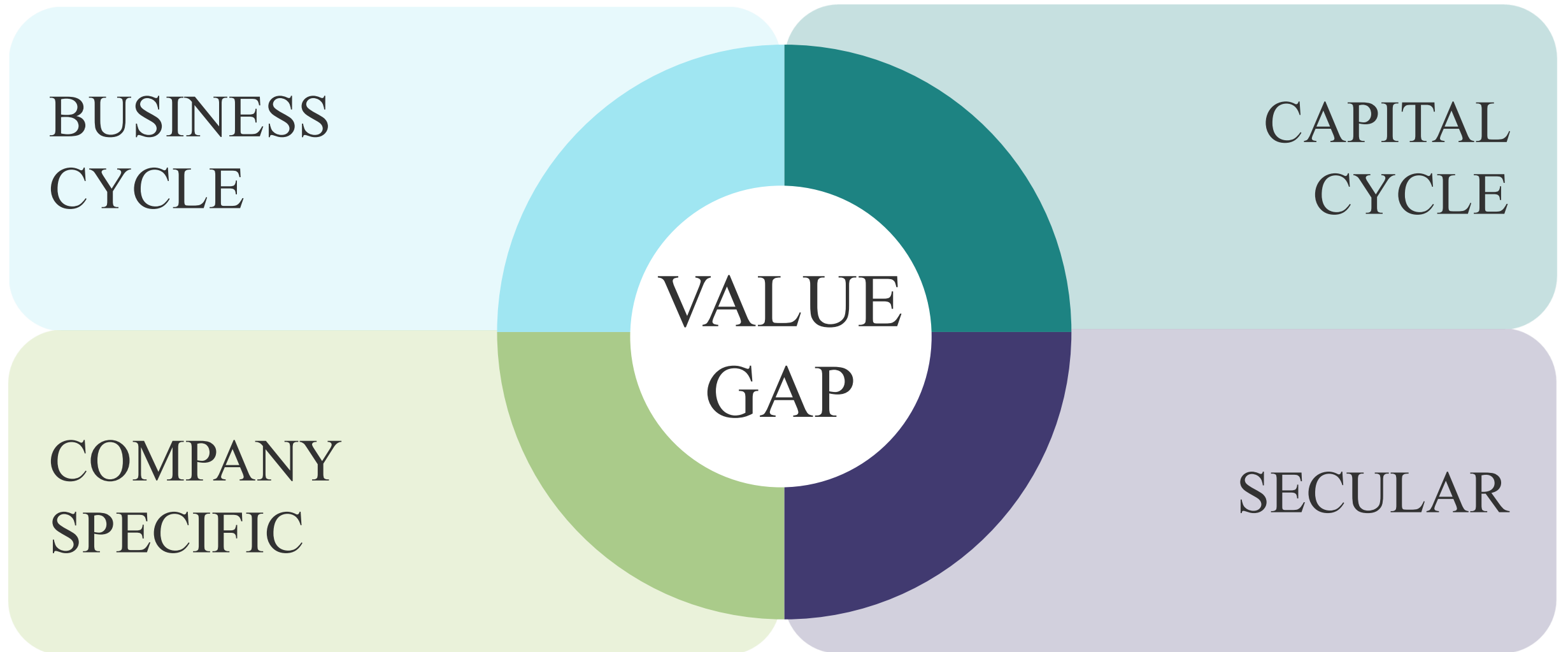
# SMALL CAP UNIVERSE

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# FOUR HORSEMAN OF VALUE

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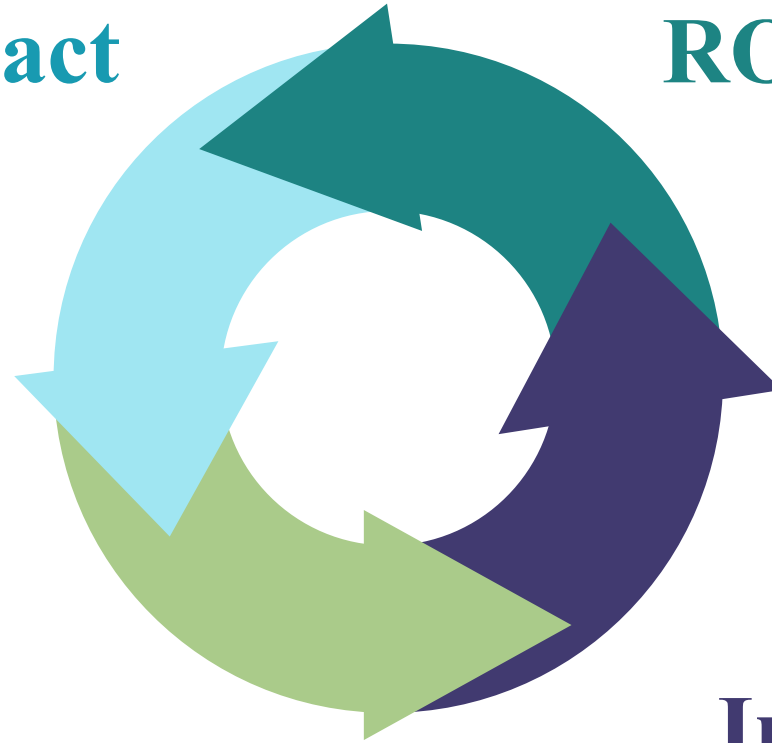


# CAPITAL CYCLE

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**High Returns Attract  
Competition**

**ROIC > Cost of Capital**



**Investment Declines  
Competitors Exit**

**ROIC < Cost of Capital**

# DARLING INGREDIENTS

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What do they do?

Valueless animal byproducts → value-added products

## Opportunity



Business Cycle



Company Specific



Capital Cycle

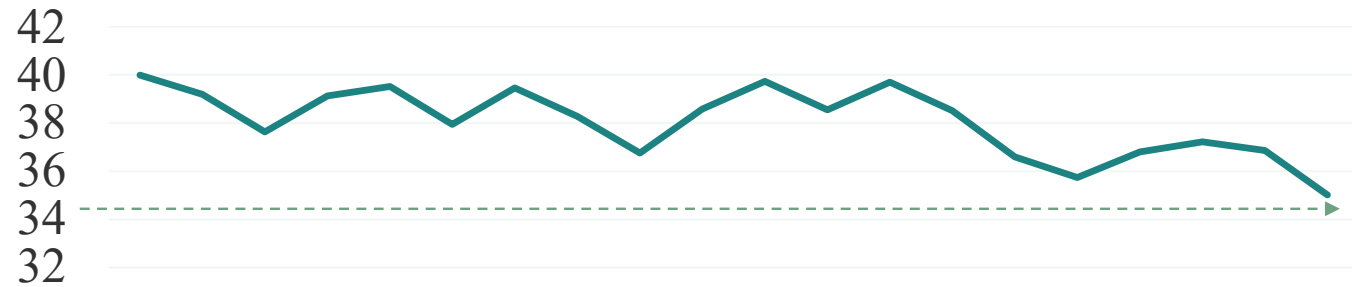


Secular

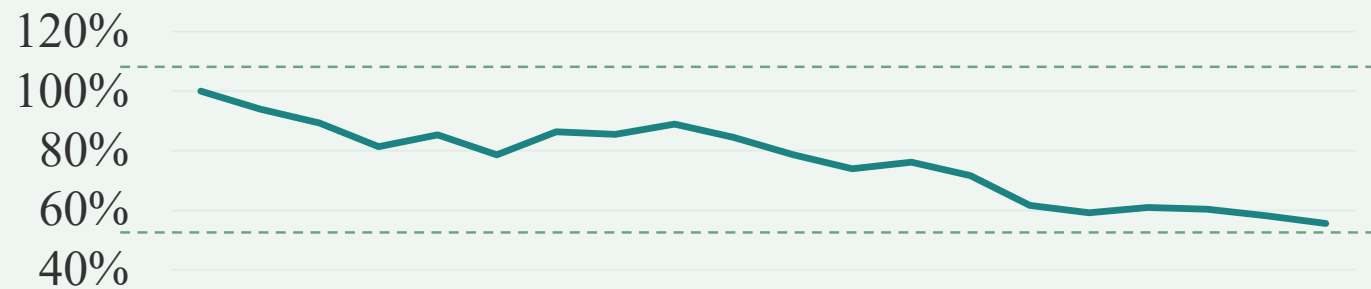


# RESEARCH OPPORTUNITY

## Historical 5-Years



Down Share Price



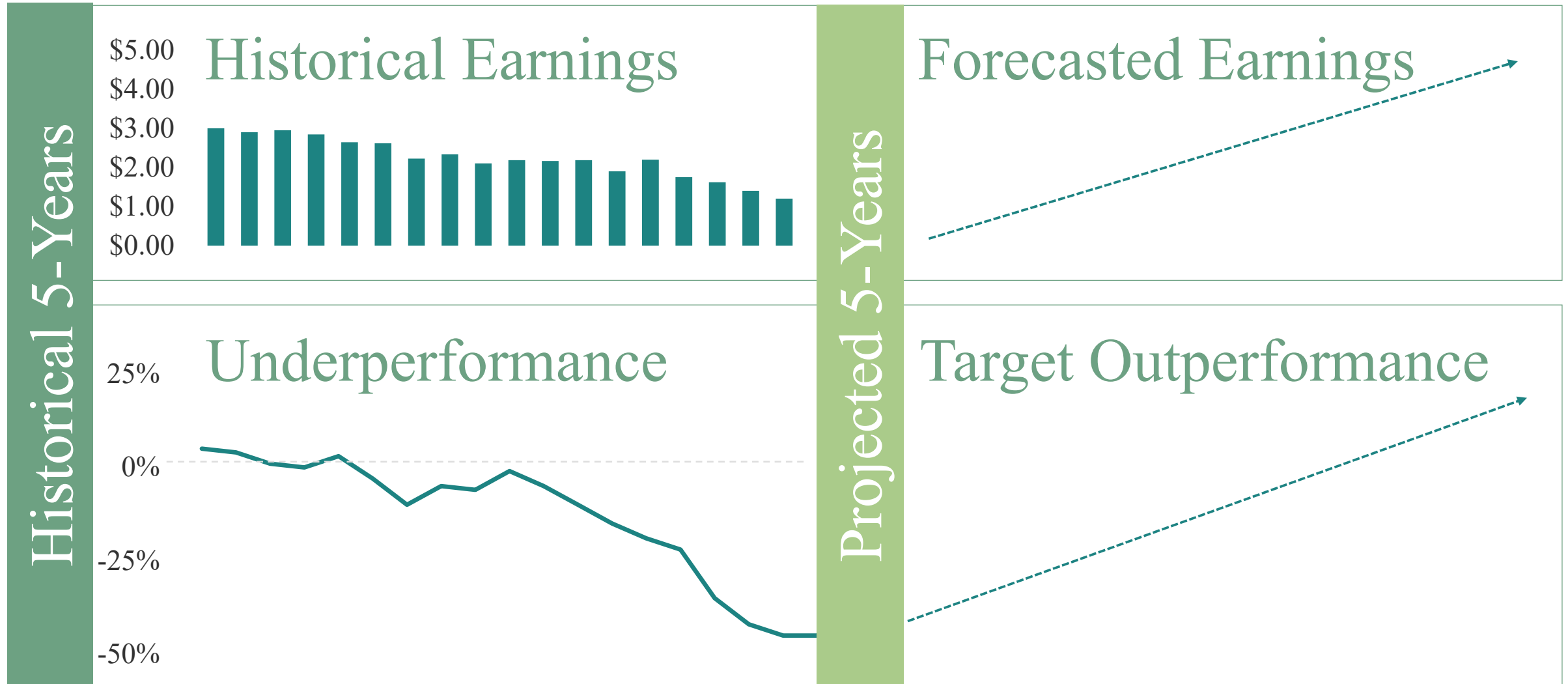
-45% Relative Underperformance



-67% Decline in EPS

The above is an illustration of the Barrow Hanley Small Cap Value team's fundamental screening process under normal market conditions. Earnings per share refer to trailing twelve-month quarterly figures. Relative valuation refers to the stock's valuation divided by that of the benchmark. Relative performance refers to the security's performance relative to the benchmark. Material presented is based on the composite and not an individual account.

# VALUE GAP IDENTIFICATION



The above is an illustration of the Barrow Hanley Small Cap Value team's fundamental screening process under normal market conditions. Earnings per share refer to trailing twelve-month quarterly figures. Relative valuation refers to the stock's valuation divided by that of the benchmark. Relative performance refers to the security's performance relative to the benchmark. Material presented is based on the composite and not an individual account.

# DARLING INGREDIENTS

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## Lazy Narrative

“DAR commoditized and trades with price of oil. It is a dead stock.”

Do the  
Work



Visit HQ, Refinery, Conference



Meet with Management



Read Everything Available

# OFG BANCORP

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What they do?

Puerto Rico Bank

## Opportunity



Business Cycle



Company Specific



Capital Cycle



Secular

# OFG BANCORP

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## Lazy Narrative

“Yeah...but it is Puerto Rican bank.”

Do the  
Work



Visit Headquarters



Meet with Management



Read Everything Available

# ENCORE WIRE

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What do they do?

Manufacturers copper electrical wire

## Opportunity

 Business Cycle

 Company Specific

 Capital Cycle

 Secular

# ENCORE WIRE

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Lazy narrative

No narrative because no sell-side coverage!

Do the  
Work



Visit Headquarters and Factory



Meet with Management



Read Everything Available

# COMPETITIVE ADVANTAGE

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Single site allows for streamlined logistics and regular flow of goods along established shipping routes.

Ability to customize orders through on-site service center

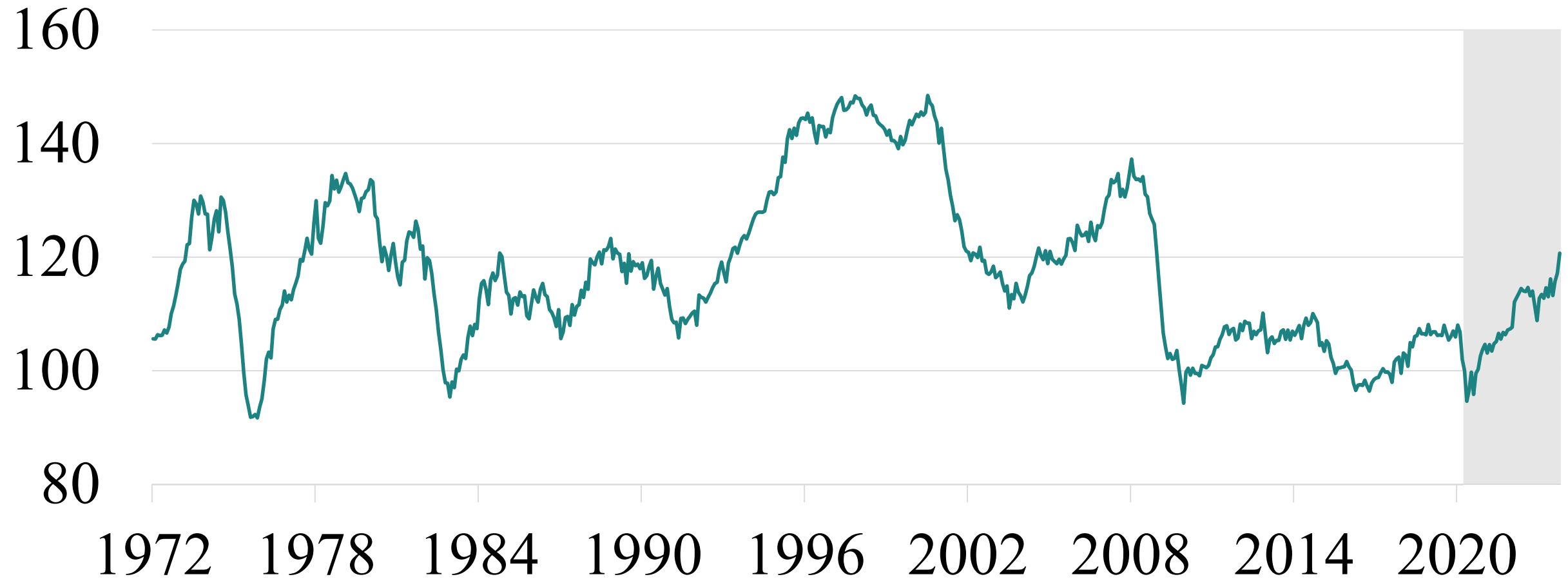
Ability to alter manufacturing schedules based on demand by moving employees between plants.

Lower overhead.  
Lower freight costs.



# ELECTRICAL WIRE VOLUME

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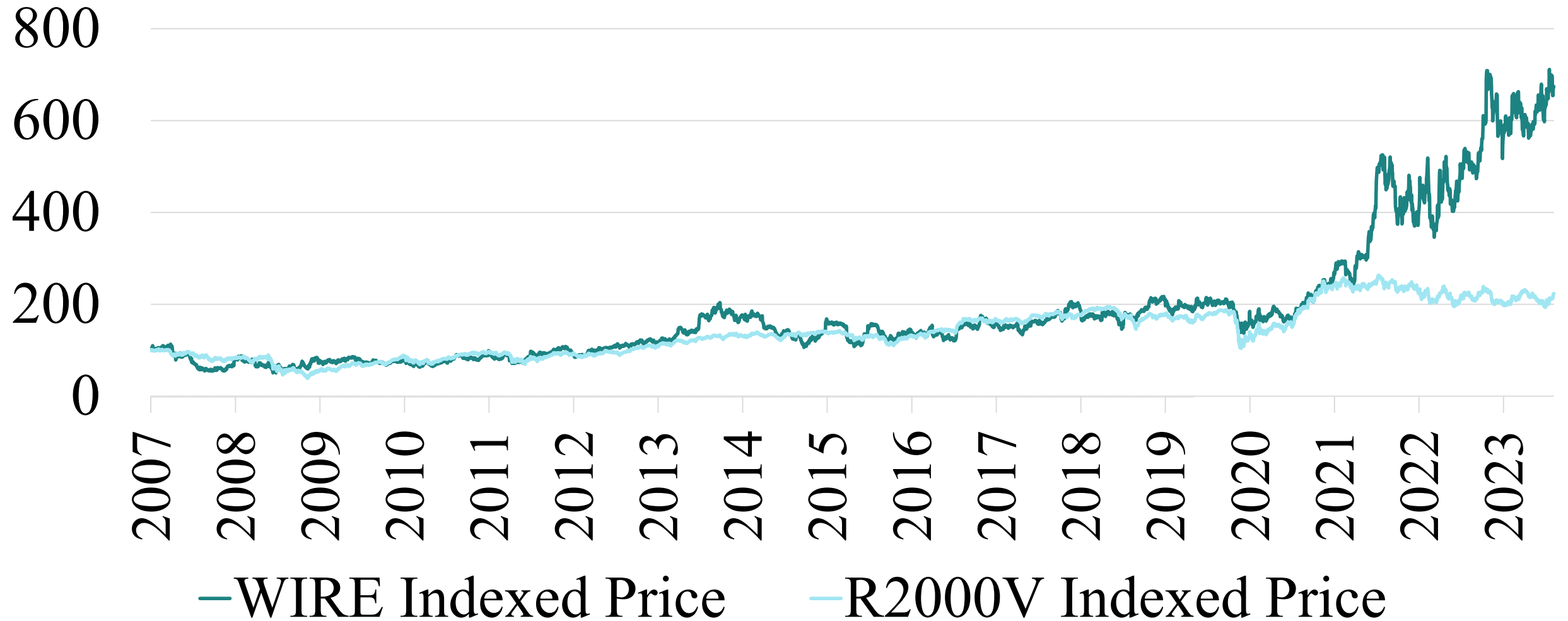


# COPPER WIRE PRICE INDEX



Source: MacroBond

# WIRE VS R2000V INDEXED



# TAKEAWAYS

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Small caps are the least, the last and the lost – 45% don't make money

Active managers can sort through and identify hidden gems with upside potential

Boots on the ground research is necessary to ensure path to normalization achievable

**GREAT TIME FOR SMALL CAP**

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