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Anatoly Fedorov
Portfolio Manager of Signet Equity Fund (UCITS)



SIGNET

Anatoly Fedorov

Corporate finance and investment management professional



2018 – Present **Signet Capital Management, London-based Asset Manager**

- ☞ Portfolio Manager of Signet Equity Fund (UCITS), Equity Long/Short
- ☞ Ex. M&A Arbitrage and Equity Long/Short Portfolio Manager in a multi-strategy hedge fund

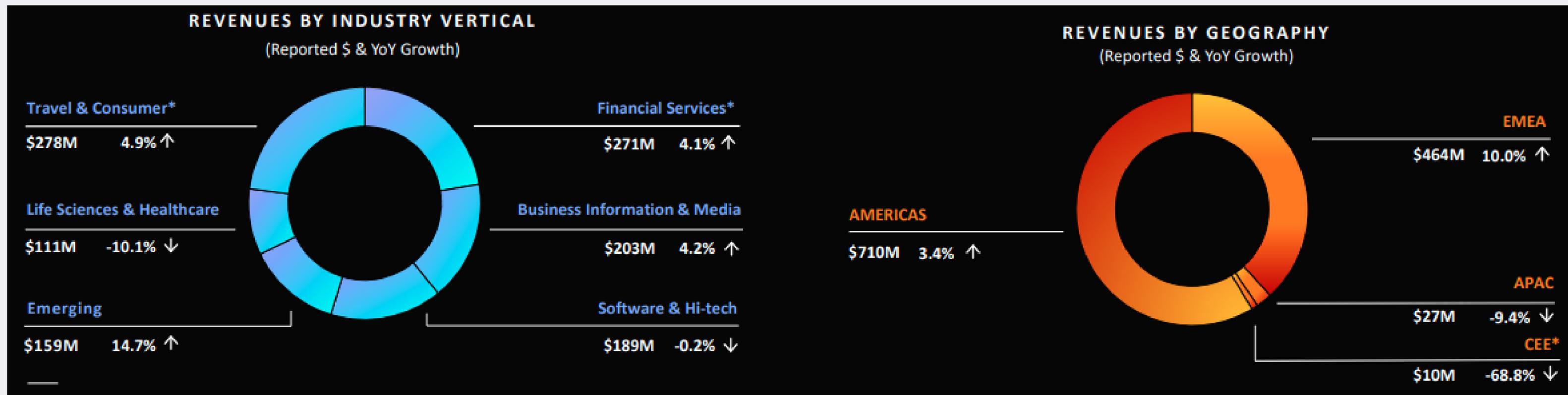
2011 – 2018 **J.P. Morgan Investment Banking, Global Investment Bank**
Vice-President in Diversified Industrials Practise

Selected transaction experience:

- ☞ Public takeover of Tier-1 auto OEM supplier Wabco Holdings by ZF (2017)
- ☞ Philips Lighting dual-track process, IPO and follow-on offerings (2016/2017)
- ☞ Sale of a French packaging company SGD Pharma to China Jianyin Investment / JIC (2016)
- ☞ Acquisition financing for industrial companies and financial sponsors (2015-2017)
- ☞ IPO of Befesa, metals recycling company (2017)
- ☞ IPO of QIWI, Russian payment system (2013)
- ☞ IPO of Luxoft, IT Consulting and Outsourcing company (2013)

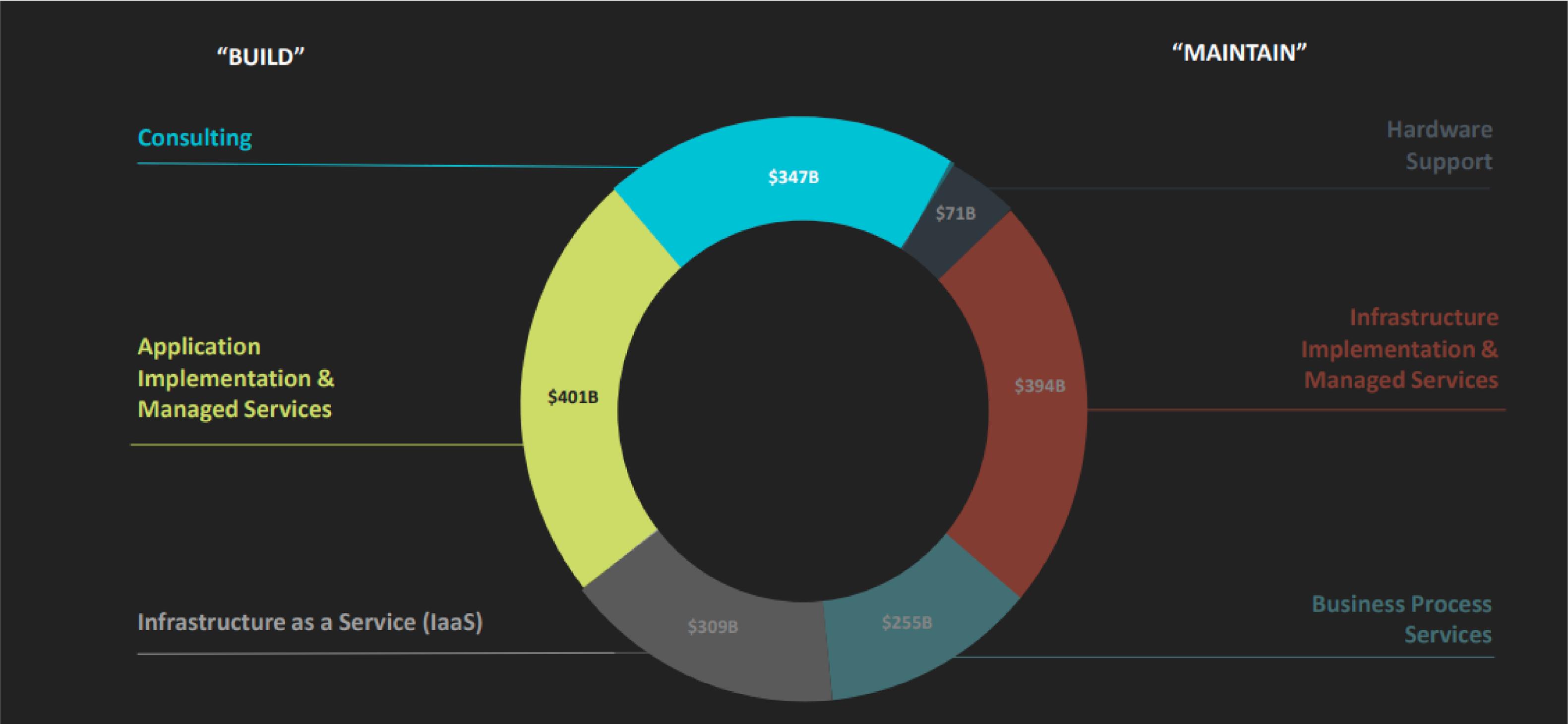
Value technology name with exposure to AI at 20x P/E and 15% EPS CAGR

- EPAM Systems (EPAM US) is a provider of IT consulting, software development and digital transformation services
- Founded in 1993 by Belarussian entrepreneur, listed on NYSE since 2012, became a member of S&P 500 in 2021
- 51,100 engineers, designers and IT consultants located in Ukraine, the US, Belarus, Poland, Bulgaria, Hungary, Czech Republic, China and India
- Geo breakdown of revenue (50+ countries): 59% - US, 38% - EMEA (UK, Switzerland, the Netherlands, Germany), 3% - APAC & Central and Eastern Europe
- 62 of top 100 clients in the Fortune 500 or Forbes Global 2000 e.g. Daimler, UBS, Equifax, Estee Lauder, EPIC Games, Liberty Global etc.



Source: Company Presentation

The Enterprise IT Services Market - a \$1.8 Trillion+ Total Addressable Market in 2026



Source: Company Presentation

Signet Presentation © 2023

EPAM in 2022-23 – when growth becomes value



Source: Bloomberg as of June 28, 2023; Company Presentation

Reasons to believe that turnaround is around the corner for EPAM

☰ Significant **diversification of delivery centres** achieved

On March 4, 2022, the Company announced a \$100.0 million humanitarian commitment to support its employees and their families in and displaced from Ukraine. As of March 31, 2023, the Company has \$49.1 million remaining to be expensed under this humanitarian commitment.

☰ **Slowdown** in demand for digitalization **should not be prolonged** (most likely limited to 2-3 quarters)

Q1 2023 earnings call (May 5, 2023): "... the instability in that macroeconomic view is, as long as people aren't certain whether the bottom's going to be in Q3 or Q4 or Q1 of 2024, it just makes it more difficult for people to make investments in larger scale transformation programs"

☰ **Exposure to Artificial Intelligence**

Q1 2023 earnings call (May 5, 2023): "We didn't talk too much about all this nice conversation about open AI, et cetera, but we do believe that a lot of engagement, digital ecosystem will have to be rebuilt very, very soon."

☰ On February 13, 2023, the Board of Directors approved a **share repurchase program** with authorization to purchase up to \$500 million (3.8% of MarCap) that will have a term of 24 months (bought back \$10mm up to May 2023; expect to be active in terms of share buybacks Q2 2023)

☰ **New clients (logos) signed** leading to further diversification

Q1 2023 earnings call (May 5, 2023): "We are seeing a significant amount in new logo activity. So there's a fair number of wins, a lot of new accounts being signed."

Delivery professionals by location – diversified away from Central and Eastern Europe

FACT SHEET

Q4 2022

This Fact Sheet includes non-GAAP measures as discussed in Footnote #1.

(in millions except percentages, headcount, share and per share data)

	2021					2022				
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year
People										
Total Professionals, End of Period	43,450	47,850	52,700	58,800	58,800	61,600	61,300	60,300	59,300	59,300
<i>Year-Over-Year Net Change in Total Professionals</i>	<i>16.2%</i>	<i>31.3%</i>	<i>38.6%</i>	<i>42.9%</i>	<i>42.9%</i>	<i>41.8%</i>	<i>28.1%</i>	<i>14.5%</i>	<i>0.9%</i>	<i>0.9%</i>
Delivery Professionals, End of Period	38,850	42,850	47,100	52,600	52,600	55,050	54,900	53,950	52,850	52,850
<i>Year-Over-Year Net Change in Delivery Professionals</i>	<i>17.3%</i>	<i>32.6%</i>	<i>39.4%</i>	<i>43.2%</i>	<i>43.2%</i>	<i>41.8%</i>	<i>28.1%</i>	<i>14.5%</i>	<i>0.5%</i>	<i>0.5%</i>
Utilization	81.4%	80.2%	77.1%	76.8%	78.7%	78.4%	78.0%	73.5%	73.6%	75.8%
Delivery Professionals by Location ⁽⁶⁾										
Europe					40,250					32,100
Ukraine					12,400					10,500
Poland					3,050					5,650
Belarus					9,400					4,500
Eastern Europe - Other					11,900					6,600
Western Europe					3,500					4,850
Americas					4,750					5,950
U.S. and Canada					3,050					3,400
Americas - Other					1,700					2,550
Rest of World					7,600					14,800
India					4,350					5,900
Central and Western Asia					2,150					7,600
East Asia and Australia					1,100					1,300
Total Delivery Professionals, End of Period					52,600					52,850

Low customer concentration with c. 500 accounts generating more than \$1mm per annum

	2021					2022				
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year
Customer Concentration, as % of Total Revenues										
Top 5 Customers	20.2%	18.7%	17.7%	16.6%	18.2%	17.0%	16.5%	16.4%	16.1%	16.4%
Top 10 Customers	28.7%	26.4%	25.0%	23.7%	25.7%	24.1%	24.2%	24.4%	23.1%	23.8%
Top 20 Customers	40.7%	37.9%	36.8%	35.3%	37.1%	35.7%	35.5%	36.1%	34.4%	35.2%
Outside of Top 20 Customers	59.3%	62.1%	63.2%	64.7%	62.9%	64.3%	64.5%	63.9%	65.6%	64.8%
Number of Accounts with Revenues:										
Over \$20 Million					412 accounts					488 accounts
\$10 - \$20 Million					40					49
\$5 - \$10 Million					38					51
\$1 - \$5 Million					63					85
\$0.5 - \$1 Million					271					303
					133					185
Contract Types										
Time-and-Material	\$665.0	\$752.5	\$851.6	\$940.6	\$3,209.7	\$1,023.2	\$1,059.6	\$1,084.8	\$1,072.0	\$4,239.6
<i>As % of Total Revenues</i>	85.1%	85.4%	86.1%	85.0%	85.4%	87.3%	88.6%	88.4%	87.1%	87.9%
Fixed-Price	\$111.3	\$123.8	\$132.4	\$161.9	\$529.4	\$143.5	\$131.2	\$136.4	\$149.3	\$560.4
<i>As % of Total Revenues</i>	14.3%	14.0%	13.4%	14.6%	14.1%	12.3%	11.0%	11.1%	12.1%	11.6%
Licensing and other revenues	\$4.5	\$5.1	\$4.5	\$4.9	\$19.0	\$4.9	\$4.1	\$5.7	\$10.0	\$24.7
<i>As % of Total Revenues</i>	0.6%	0.6%	0.5%	0.4%	0.5%	0.4%	0.4%	0.5%	0.8%	0.5%

Source: Company Databook

EPAM – Key numbers. Better-than-feared performance as BUY catalyst

Main info

Current price, \$	229.1	Mkt Cap, \$ bn	13
Consensus, \$	258.2	ADTV, \$ mm	149
Upside to consensus	+13%	Dividend yield, %	—
% to 1Y max	+102%	Weight, S&P 500	0.04%
% YTD	-30%	EV/S NTM, x	2.4
% 12M	-29%	EV/EBITDA NTM, x	13.7
% 10Y (p.a.)	+24%	P/E NTM, x	21.8

Top shareholders

Shareholder	Share, %	Position, \$mn
Capital Group	16.6	2,190
Vanguard	11.2	1,477
Blackrock	6.9	907
Alliancebernstein	6.2	816
Wcm IM	4.8	639
State Street	3.9	511
JPMorgan Chase	3.7	491
FMR	2.9	378
Dobkin Arkadiy (Founder and CEO)	2.2	286
Invesco Ltd	2.0	268

Key financials (\$mm)

Item	2019	2020	2021	2022	2023	2024	2025
Revenue	2,294	2,659	3,758	4,825	4,687	5,088	6,067
% YoY	24.5%	15.9%	41.3%	28.4%	-2.9%	8.6%	19.2%
Adj. EBITDA	432	536	762	910	799	897	1,096
Margin	18.8%	20.1%	20.3%	18.9%	17.1%	17.6%	18.1%
Adj. Net Income	333	494	534	645	589	651	790
Margin	14.5%	18.6%	14.2%	13.4%	12.6%	12.8%	13.0%
adj. EPS	5.8	8.5	9.0	10.9	9.9	11.1	13.2
% YoY	23.2%	46.2%	7.0%	20.5%	-6.6%	11.9%	18.5%
Net Debt/Adj. EBITDA	-1.6	-2.2	-1.7	-2.2	-2.6	-2.7	-3.0
EV/Sales	5.4	7.5	6.4	3.8	2.1	1.9	1.5
EV/Adj. EBITDA	30.3	38.9	34.5	25.7	12.6	10.7	8.1
Adj. P/E	49.5	40.0	27.3	28.2	23.0	20.6	17.4

Lessons learnt from an investment mistake: did not “let my winner run”

Follow your industry analysis and hold on to your high conviction idea especially when it is successful

- Produced 80 pages analysis that showed dominance in high-growth niche market with 80%+ market share, identified executed M&As with perfect fit
- Despite significant market pessimism towards technology names increased position substantially in December 2022 and January 2023 but started to cut too early as could not justify valuation levels

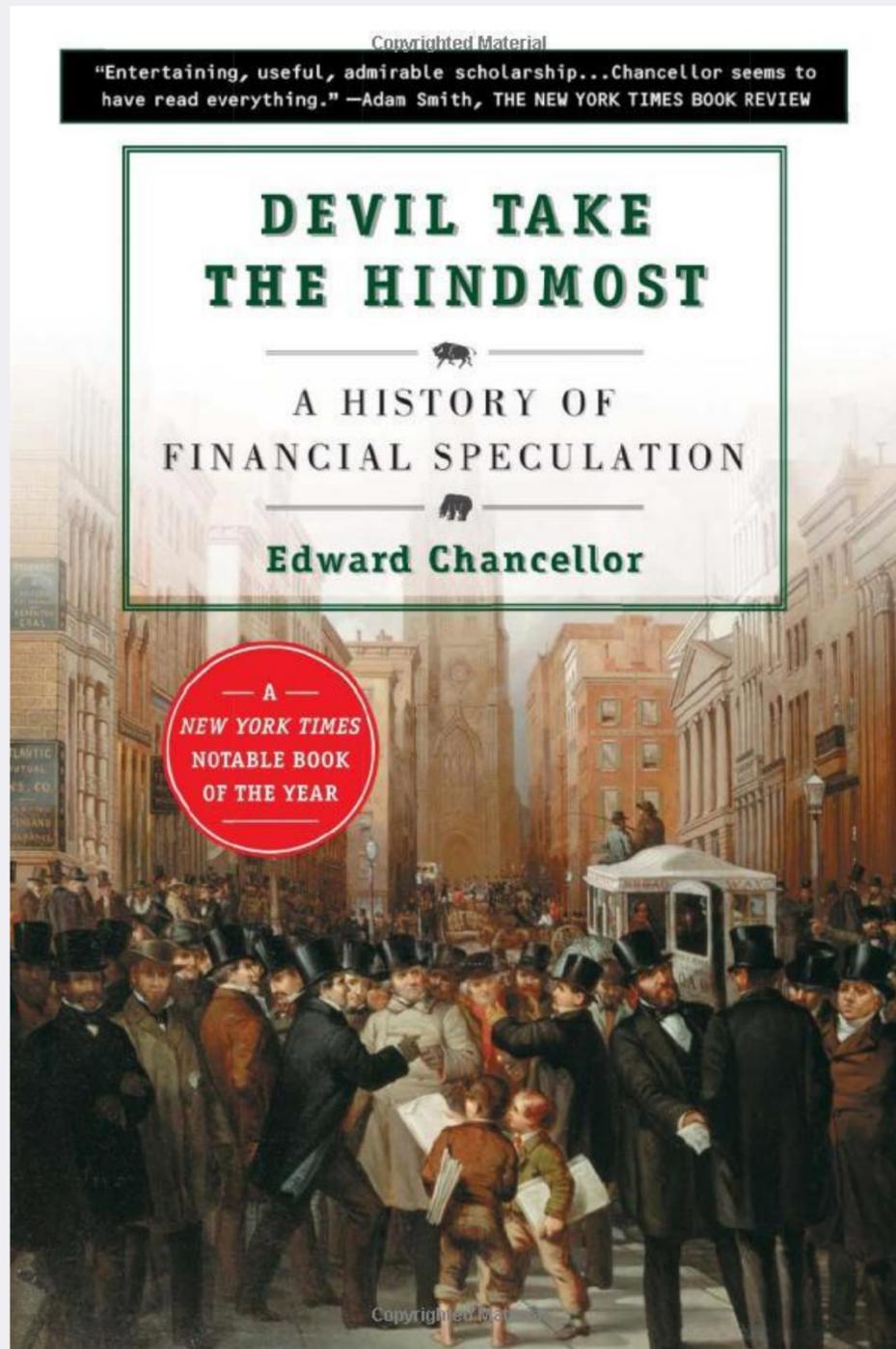
Be sceptical to what analysts and market commentators say

- “There is no way that this company can grow at 25% top-line CAGR”
- “It is the single most expensive company in semiconductor space... Even if we do not adjust for stock-based compensation. If we make this adjustment it trades at more than 100x P/E.”

Be conscious of behavioural patterns

- Do not make speculation an integral part of your investment process but it is OK to enjoy the hype if you are already invested
- Consider implementing profit taking when share price start declining 5% or 10%

Book recommendation



Author: Edward Chancellor – Devil Take the Hindmost: A History of Financial Speculation

Devil take the hindmost = Let everyone put his or her own interest first, leaving the unfortunate to their fate

A lively, original, and challenging history of stock market speculation from ancient Rome to present days

"I can calculate the motion of heavenly bodies, but not the madness of people."

Sir Isaac Newton commenting on South Sea Bubble of 1720

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For sustainable investing we consider the environmental, social and governance information (ESG factors) throughout the investment process and we ensure that our sustainable product offering meets the high standards through dedicated sustainable investment principles and processes governed by our ESG Investment Policy Statement. The ESG Investment Policy applies to all portfolios where ESG considerations are embedded in the investment process or where a sustainable objective is defined.

Our ESG scoring is graded each company in the portfolio on a scale of 0 to 100 relative to other firms in its global industry peer group. As a result, two companies that have the same score but belong to different peer groups may not have equivalent levels of environmental, social, and corporate governance (ESG) performance. A score of 50 means that the company is considered average relative to its peer group whereas a score of 70 or higher means that the company is rated at least two standard deviations above average in its peer group. A score of 30 or lower means that the company scores at least two standard deviations below average in its peer group.

Q&A



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