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[00:00:21] Andrew Johnson: Hi everyone. Today we are talking Canadian small caps—what's going on in the market, how the team's thinking about positioning, as well as a closer look at some of the stocks in the portfolio. We also get into some of the behind-the-scenes stuff, like how AI and internal tools are starting to reshape the way the team works. With that, here's my conversation with Dom Drzazga.

Hey, Dom. First things first—it's great to see you, but second, welcome to the podcast. This is your first time joining us here, so we're excited to finally get you on.

[00:00:52] Dominic Drzazga: Thank you very much, Andrew. It is the first time and I'm very excited to be here. I look forward to speaking with you today.

[00:00:58] Andrew Johnson: Excellent. And maybe just very quickly for our listeners—you've been with the firm for about five years now. You're an equity analyst working on our Canadian small cap team. You're someone that I get to chat with pretty frequently here at Mawer, but we thought it would be great to have you on the podcast to talk through some of the work that you and the team are doing in small caps. So why don't we jump right in and just set the stage with a bit of a pulse check. How would you describe the current state of Canadian small caps, and how has that shaped, if at all, portfolio considerations for you and the team?

[00:01:34] Dominic Drzazga: I would say it's volatile. There's quite a bit of geopolitical uncertainty with tariffs, with trade—mostly spurred on by the administration south of the border. And this is naturally driving quite a bit of uncertainty in the Canadian economy and, by proxy, in the Canadian consumer. Tariffs aside, the wild swings in what any leader decides to do on a certain day can really make it hard for families, for businesses, for people to make steady long-term decisions and that eventually trickles down through the economy and to the equity markets as well. In volatile times, preservation of capital is very important—and that's rule number one: preservation of capital for our clients. We do that by focusing on great companies, run by great management teams, at reasonable or preferably great prices.

But second of all, volatility also brings about opportunity, and we have been extremely busy turning over new stones and speaking to management teams of potential inventory names. I find that there's probably been quite a bit of coverage on this podcast or in articles about our Delta process, but we also have a rigorous inventory assessment process, and we have a scale that we use and we start with preliminary analysis—we can move it to intensive or finished or ultimately have it in the portfolio. And then we rank every company that has been analyzed on a one-to-five scale, where one is very low potential and five is very high potential. What that allows us to do is,



over time, have a large repository of many companies and monitor the ones that are high or very high on that inventory list. That list totals over 50 names today—I looked it up since I knew we would be speaking today—versus our portfolio, which is not as much as 50. We have been very active in adding and in continuing to monitor, but the volatility has created some opportunities. However, preservation of capital is top of mind and first and foremost as well.

[00:03:37] Andrew Johnson: That inventory list, I think, is an underappreciated part of our investment process because it is obviously so important to keep an eye on things that are happening in the portfolio, just as important to have a ready list of investments for these opportunistic times that may come up with price action that takes place around certain events that are happening. And of course, there's no shortage of that, as you mentioned. With that context in mind, let's get into some of the moves that you've actually made. One name that stood out was Sprott, this is a company that I think many Canadian investors recognize—it's often tied to gold and precious metals. What made Sprott a compelling addition right now, and how does it fit into that broader positioning of the portfolio?

[00:04:21] Dominic Drzazga: Yeah, so as you alluded, Sprott is a firm not unlike ours, although their main product is somewhat different. They offer mainly—or their flagship product is—a physical trust. And if you buy units of a physical trust as a client, it means you buy a fractional interest in a pool of physical gold or other precious metals that is securely stored by Sprott. Fun fact: in the Royal Canadian Mint, actually. The trust is closed-ended, and roughly half of all the precious metals that Sprott manages for its clients are, in fact, gold. A quarter is silver, maybe another 20% is uranium, and then there's another longer tail of other precious metals like palladium. This closed-end physical element means that assets under management—which totaled just north of \$30 billion at the time of our initiation—are fairly sticky, even stickier than equity-based ETFs, for example, or a mutual fund. And they are currently the number three player in the United States. So on top of that sticky asset base, they have strong margins at almost 60% EBITDA margins, a debt-free, clean balance sheet, and a strong track record of growth—averaging 8% on average per year of net fund inflows. Management is great. Mr. Whitney George is a fairly well-known, no-nonsense manager. He's very well-aligned—he owns 5% of the company. He's very long-term focused and so just moving down the matrix, our Monte Carlo DCF outputs had Sprott at the undervalued side of the fair value range with fairly reasonable assumptions and a long runway for continued growth. All of this considered, we saw Sprott as an attractive idea, but to your point, it was also a way to address the underweighted element of precious metals in the Canadian small cap portfolio. We thought about many different ways to do so. We spoke with over 10 early-stage producers, royalty companies within our mandate constraints, of course. We spent a lot of time digging into every part of the value chain, and ultimately we saw that Sprott was a reasonably priced, attractive business—a very stable business—and much more stable and attractive than some of the much more volatile and riskier early-stage producers within the precious metal sphere. That's how Sprott fits in. It offers some much-needed diversification, but on its own as well, it is a great business, we believe, run by great people at what we believe is a great price as well.

[00:06:50] Andrew Johnson: Yeah, certainly a differentiated business model within that broader kind of metals and mining space, especially when you consider just the capital intensity compared to a producer or somebody that's actually going to dig the gold out of the ground and bring it to the earth.

Another name that you've been leaning into is Kraken [Robotics]—and insert release-the-Kraken joke here. This is a company that's definitely more under the radar, but it's also not without its risks. I think we've talked a little bit



about a higher multiple that is attached to it. It's got some defense sector exposure. It's got a little bit of a higher growth element. What gave you the conviction to lean into a name like that, and how do you weigh the upside potential against the risks in a stock like that?

[00:07:32] Dominic Drzazga: I will get to the valuation multiple, but I just wanted to start with saying this is very interesting and amazing technology. Just diving into it and reading about it—my colleague Samir, the portfolio manager and key decision maker for Canadian Small Cap and I went to go visit the team in Halifax. I personally fear the open ocean—I'm more of a freshwater guy myself. I did see the pictures, but it is amazing what they've managed to build out in Halifax. Effectively, what Kraken does is they manufacture and sell underwater robotics equipment and services. That's ultra-high-resolution sonars, power systems, other underwater robotic systems that go into unmanned submarines. And they're the number one player for north of 40% of what they sell, with mission-critical products. They have deep know-how and relationships with many of the manufacturers of the UUVs—unmanned submarines themselves—and they're, as you noted, exposed to the defense spend and the defense sector, which has seen very strong growth, of which Kraken has benefited. And there's a strong case for that secular growth to continue. Anduril, one of their larger customers has, of course, seen many record orders and lots of success in winning orders, which also trickles down to Kraken as well. But it's one thing to benefit on a growing and rising tide within an industry, but it's another to execute on it. That means management has to build these facilities that build this technology, continue spending money on R&D and investing into making the technology better, and be scouting for new acquisitions to make sure they're always on top of the next niche thing. And this management team has done that phenomenally—from almost no revenues in 2012 to north of \$120 million in revenues in 2024 and almost \$30 million in EBITDA. They have a tremendous execution track record, they remain fairly well-aligned and committed for the long term.

And now the topic that you broached at the start, which is valuation—there's a price for every asset, and this asset can grow anywhere between 25% to 50% per year organically, depending on how you slice it—of course, depending on how defense spending and the end markets perform. But there's a very strong case, given the backlogs that are in place right now, for Kraken to continue growing very strongly over the next couple of years at similar or expanding margins. With that and the potential positive skew from further acquisitions—which management has proven they are quite good at—we found that the initiation price that we paid—and have paid since accumulating our position—has compensated us, or compensated our clients, quite well, given the risks and potential rewards down the line.

[00:10:31] Andrew Johnson: Thanks for that. First of all, because this was not a name that I was familiar with before we took a position into it, and it's certainly, to date, it sounds like one of those great Canadian success stories so far. I'm looking forward to seeing how that thesis plays out over the next, hopefully, five to 10 years or more.

Now, of course, Dom, not every change in the portfolio is by choice. We had a stock—Andlauer—that was a long-time holding that got taken out recently, which can be this kind of bittersweet moment, I think. And I was curious to just get your thoughts about exits like that, where the near-term price might be fair—we might be getting a great deal for our clients today—but the long-term runway is still very strong, and there's almost feels like sometimes there's something left on the table for us.

[00:11:18] Dominic Drzazga: Bittersweet for sure, and Andlauer is a great business—run by a passionate and very



hardworking founder, as the fans of the Ottawa Senators may know at this point and are likely familiar with. (Go Leafs!) The company has been growing at mid-to-high single digits and 20%-plus EBITDA margins for many years now and held a very dominant position in Canadian healthcare shipping. And the \$55-per-share takeout price was a significant premium to the range of share prices that Andlauer experienced in the periods prior to the announcement, whether it was \$40 or \$45 per share. But that isn't the way that we look at it we always revert back to the process when making decisions like these on behalf of our clients. We looked back at what the fair value range, given our Monte Carlo DCF, was for Andlauer and what was fair based on valuation at that date. And it ranged from the high \$30s per share Canadian to almost \$60 per share, depending on how you slice the organic growth and the EBITDA margins, as well as they did have a small portion of their U.S. business potentially recovering in the future. With \$55 a share being very much on the higher end of that fair value range, we considered that takeout offer made by UPS to be a good price for what the business was at that point. Although if management executes—and we hope they will, and we hope UPS continues to execute over the next few years, as Mike is staying on for two years as well, the CEO—the business could, of course, continue to compound well past that \$50, \$55-per-share mark. Although at that point, that was the best decision for our clients. But it is a little bittersweet to see a Canadian success story, a Canadian compounder, leaving the public markets.

[00:13:03] Andrew Johnson: Before we wrap up, Dom, I just want to zoom out for a second. We've talked before, either in internal meetings or on this podcast with other guests, about how the team, broadly speaking, is using AI—whether it's building internal tools or running hackathons to evolve the investment process. So I wanted to just get you to tell me and our listeners about how you and the team have been approaching that. Is that innovation starting to show up in tangible ways for how you work day to day? And if so, what's been most impactful so far?

[00:13:36] Dominic Drzazga: The answer is yes—that innovation is showing up. The hackathon and the AI piece are very much closely linked. I think Justin, our CTO, and his IT team have done a phenomenal job to give us, the research members, tools and platforms on which we can improve our process, innovate to make processes of our own, and make workflows faster, simpler, better and help us focus on freeing up time to do the things—the deep work on companies—that we know we can add value within.

The most prominent, best example of that sort of innovation today is what I would like to call the earnings monitor agent. We have a tool today—again, thanks to the IT team for this—that automatically monitors and summarizes any newly released earnings transcripts. Almost every company within our portfolio has an earnings call. Perks of Canadian small cap land. It detects any sort of newly updated or published earnings transcripts, summarizes those, displays very clearly the top five financial KPIs—or however many we desire—financial KPIs for a certain period of time. Uses, based on OpenAI's GPT-o3 pro model, and generates the summaries shortly after those new transcripts are published, delivered straight into our inbox so we can use it as an additional tool for information summarizing so we can get to the crux of whatever issue or benefit or positive impact that earnings call may have. Very eager to test it out earnings season in Canadian small cap is just around the corner. Some companies have reported already—the tool has held up. But I think that's probably the best example of us being very innovative, a tangible example of our innovative culture, and us working to iterate and improve the process and ultimately deliver value to our clients.

[00:15:31] Andrew Johnson: That's been the common theme of my discussions with a lot of people around AI—just getting things done in a faster way with clearer information and reducing friction in getting that work into your



hands so that you can, and especially in your role, apply judgment and discretion to how you're going to build the portfolio with that information.

That seems like a great place to wrap things up. Dom, it obviously sounds like there's a lot happening on that front, and we should probably leave ourselves something to talk about the next time that you're on. So thank you again, Dom, not just for making the time to join the podcast today, but also for all the work that you and the team are doing on behalf of our clients invested in the portfolio.

[00:16:11] Dominic Drzazga: Thank you very much, Andrew. It was a dream of mine to come on, and you made all my dreams come true. I'm going to tell every person I know to have a listen. Thanks again for the time.

[00:16:20] Andrew Johnson: Hey everyone, Andrew here again. To subscribe to the Art of Boring Podcast, go to mawer.com—that's M-A-W-E-R.com/podcast—or wherever you download your podcasts. If you enjoyed this episode, leave a review on iTunes, which will help more people discover the "Be Boring, Make Money" philosophy. Thanks for listening.

