EWING MORRIS INVESTMENT PARTNERS LTD.

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September 6, 2024

Interview #99: with Darcy Morris (Ewing Morris & Co.)

Capital Employed Newsletter

Hi Darcy, thanks so much for taking the time out to do this interview. Can you please tell readers about your background, and how you got involved in investing?

I grew up in a household where hard work and frugality were core values. My father was a lawyer, and my mother was an entrepreneur, which exposed me to both the analytical and creative sides of business. I also played competitive hockey, which instilled in me a strong sense of discipline and a competitive spirit.

At 15, I landed a job on the bond trading floor at Cantor Fitzgerald, UK investment bank. This was in the 90s, a pre-electronic trading era filled with excitement but also a very transactional atmosphere. After graduating from university with a degree in political science and economics, I was torn between law and finance. However, my experience at Cantor Fitzgerald had sparked my curiosity—I wanted to understand who was on the other end of the phone making those trades. Through a series of informational interviews, I discovered the world of the buy-side and sell-side. I was drawn to the idea of being on the buy-side and secured an interview at a well-respected value investing firm in Toronto.

They had a recommended reading list, including classics like Ben Graham's *The Intelligent Investor* and Warren Buffett's shareholder letters. I devoured these books in the lead-up to my interview, and it was a turning point for me. I realized that stocks weren't just ticker symbols but represented fractional ownership in real businesses. Investing offered a perfect blend of my life experiences—a love for reading and writing from my father, an entrepreneurial mindset from my mother, and a competitive edge from hockey. I got lucky in that first interview; when the CEO asked me about investment books, I was able to impress him by discussing the entire reading list, and that helped me land the job.

Why did you decide to launch your own business, and who do you manage funds on behalf of?

I've always had an entrepreneurial streak, heavily influenced by my mother, who encouraged me to think in ten-year increments—an approach that often leads to achieving goals sooner than expected.

There was a pivotal moment early in my career that set me on the path to founding Ewing Morris. One day, the CEO of my firm invited me to accompany him to a commencement speech he was giving at a Canadian university. After his speech, a graduate asked if he had any regrets. He candidly shared that while he was proud of his achievements, he sometimes wished he had started his firm earlier. That was a light bulb moment for me. I had always thought you had to wait until you were 50 to launch your own

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firm, but here was a mentor, at the peak of his career, telling me that his biggest regret was not starting sooner.
That realization led me to launch Ewing Morris a few days after my 30th birthday. We believed there was room in Canada for a next-generation firm started by relatively young professionals with solid track records. Most private asset management firms in Canada were founded in the late 80s or early 90s and had grown substantially but were now grappling with succession issues. Our thesis was that many high-net-worth families would diversify with a smaller, younger firm that had a long runway. We capitalized the firm with enough cash to operate for at least three years, allowing us to waive management fees for early-stage investors who allocated $500,000 or more for one year. We estimated our breakeven AUM at $30 million, which we achieved within our first 12 months.

Today, our AUM is around $900 million, and we've diversified into small-cap value, credit, shareholder activism, and opportunistic real estate. We primarily manage funds on behalf of Canadian families and high-net-worth investors, as well as foundations and small institutions.

You've done a tremendous job of growing your business since 2011. What do you attribute this success to, and what is the most difficult aspect of operating an investment business?

Our success is rooted in genuinely caring about our clients. From day one, John Ewing and I decided to build an investment firm we would want to be clients of ourselves. This means delivering strong, consistent returns, communicating openly and candidly—whether the news is good or bad—and aligning our interests with our clients'. A substantial portion of our AUM comes from partners of the firm, which underscores this alignment.

On the investment side, we focus on "doing what others can't or won't." This approach has led us to engage in shareholder activism, with the principals of our firm having served on over a dozen public boards. Operationally, we've invested heavily in our team and systems to support our growth. Relationship-wise, we strive to enrich our clients' lives beyond just financial returns by fostering a network that benefits them in various ways.

The most challenging aspect of running an investment business is managing the inherent short-term pressures. Clients receive monthly statements and monitor the stocks we own daily, which can create pressure that is not conducive to generating sustainable long-term wealth. The behavioral psychology of managing a business where the assets are human capital, in my view, is the hardest part.

For your equity strategies, what type of businesses or situations do you like to invest in?

We seek out great businesses that most people have never heard of but whose products they've likely used. These are typically small or mid-cap B2B companies with durable competitive advantages,

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management teams that are aligned, trustworthy, and have a track record of value-creating capital allocation and are mispriced for some rreason We particularly favor oligopoly-type businesses.

We also invest in what I like to call "three-legged stools." These are solid companies but are missing one key element to unlock shareholder value. This might involve divesting an underperforming business unit, improving capital allocation decisions, or addressing operational inefficiencies. Sometimes, the company may be better suited for private ownership rather than being publicly listed. Our firm has one of the deepest track records of shareholder engagement in Canada. The combined IRR for investments where we've served on the board is over 30%. This capability to be our own catalyst in unlocking value is unique to our firm.

How do you find these companies?

We use basic screening methods, but we don't rely heavily on quantitative factors because we don't believe that's where our edge lies. Instead, we review investor day presentations and transcripts for in-depth insights into a company's strategy. We also monitor 52-week high and low lists, but our most fruitful source of ideas is our network of trusted investors. Having accumulated substantial knowledge over the years, we can quickly get up to speed on business models in industries where we've had previous success, such as enterprise software, industrials, real estate, and distribution businesses.

Once you find a company that interests you, what does your research process look like?

Our research process begins with a "filtering" phase, where we spend a few hours researching the business online, reviewing the annual report, reading earnings call transcripts, and checking insider transactions and who the large shareholders are. We might speak to someone in our network that has experience in the sector or with the company. Most ideas don't make it past this point. If a company does make it through filtering, we move on to due diligence. The output is a long-form research report that provides an overview of the business, potential opportunities and risks, key people, and our valuation estimate. We use Tegus and our network to learn from industry professionals, suppliers, competitors and ex-employees. This report also includes a recommendation on how we might size the initial investment. We then review and debate the investment proposal at our weekly investment team meeting.

You have just under 10% of your small-cap fund invested outside North America. Are there any particular countries where you're finding good value at the moment?

We don't start with specific countries in mind when investing internationally. Our decision to invest outside North America is guided by principles such as a preference for familiar and stable markets with established rule of law and effective market regulation. This often leads us to English-speaking Commonwealth countries like the UK, New Zealand, and Australia. As the world becomes more globally

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integrated, the location of a company's head office becomes secondary to the quality and competitive position of the business. For example, many Canadian-listed companies generate over 80% of their revenue outside the country.

Can you talk about two specific companies in your equity funds that you're bullish on? What was the thesis for investing?

Parkland is the largest owner of gas stations in Canada. Our investment thesis is based on their strong fundamentals, strategic positioning, and impressive management execution. Parkland has been consistently achieving multi-year earnings targets earlier than anticipated, which speaks to their operational excellence and ability to capitalize on market opportunities. We believe that misconceptions around electric vehicles, a recent activist campaign, and a disagreement with a major shareholder have obscured the underlying value of the company. Ultimately, we think Parkland is the type of business that Berkshire Hathaway would own.

Softchoice is another standout in our portfolio. They operate as a reseller of software solutions, including those from major players like Microsoft, Amazon Web Services, and Google Cloud. Our thesis centers on Softchoice's robust cash flow generation, strategic capital allocation, and competitive positioning in a rapidly growing sector. The company has demonstrated a commitment to returning value to shareholders through debt reduction, share buybacks, and a significant special dividend. We have very high confidence in management and the existing board of directors. We see Softchoice as undervalued relative to its large-cap peers, which trade at significantly higher multiples. This valuation gap, coupled with the company's strong financial performance and track record of capital allocation, makes us bullish on its future prospects.

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