Young Elephants

Conversations with founders & CEOs

Interviews by Matthias Riechert
P&R Investment Management Ltd

P&R INVESTMENT

EXCLUSIVE EXTRACT

Rational
Founder & Managing Partner Guy Gottfried

on TerraVest Industries

Guy Gottfried

Overview

The following interview is somewhat unusual. Instead of speaking with a CEO, I speak with US-based money manager Guy Gottfried about his views on TerraVest Industries. Guy is the founder and Managing Partner of Rational Investment Group, LP, a Boston-based firm following a concentrated, long-term investment approach. Guy identified the company very early on – many years before we did – and has developed a close relationship with key people at the firm. I am therefore pleased to speak with him about the Young Elephant, TerraVest and investing in general.

All dollar figures are in Canadian dollars.

Matthias Riechert

Thank you for taking the time to speak with me about TerraVest and investing in general. It seems we share a passion for identifying great compounders. To start, could you tell us a bit about your background and your firm?

Guy Gotfried

I founded Rational close to 17 years ago when I was 27. Since inception, we've generated compounded returns of approximately 14% net compared to 10% and 9% for the Canadian large cap and small cap indexes, respectively. This is despite averaging around 20% of our NAV in cash. In the last five years, we've returned 26% net annually versus 16% and 18% for the same indexes. I cite the Canadian indexes because, although Rational is a US fund, we have historically invested mainly in Canada – I grew up there and am well-connected to the local business and investing communities, and believe we have a competitive advantage in that market.

Rational's margin of outperformance has improved over time in large part because we've sharpened our focus. Our main emphasis is finding what I call undervalued compounders: companies that can deploy significant amounts of capital at exceptional returns for the foreseeable future, yet trade at modest multiples. An investment with a high upfront free cash flow yield coupled with significant long-term cash flow growth should provide substantial returns and a high margin of safety. It is also likely to experience multiple expansion once the market catches on to the quality of the business, driving your return higher still.

That being said, finding an undervalued compounder is really hard. It's easy to find compounders trading at exorbitant multiples; finding them at modest valuations is another story altogether. That's why we're concentrated investors. The more you prioritize finding something rare, the more focused you have to be. TerraVest is a textbook example of what we're looking for.

Matthias **This is a good segue. Could you give us some background on TerraVest?**

Guy TerraVest is predominantly a manufacturer of storage tanks and vessels and related transportation equipment. This spans a very wide range of products, but some examples include home heating oil tanks; underground water tanks for applications like wastewater treatment, fire suppression and stormwater collection; and tanker trailers carrying everything from petroleum products to chlorine to milk, juice and alcohol.

TerraVest also produces furnaces and boilers and natural gas processing equipment, and provides various services to the energy sector. But tanks constitute its primary line of business and the main avenue for its growth-by-acquisition strategy. It has been executing that strategy extremely successfully since current management took the reins in February 2014 and the stock has soared 26-fold over that period (including dividends, as of October 31, 2025).

A little history will help your readers better understand the company. TerraVest was founded in 2004 as a conglomerate. It overpaid to acquire mediocre businesses and ended up struggling financially and slashing its dividend, which sent the stock tumbling. In 2007, a publicly-traded Canadian investment vehicle called Clarke Inc. accumulated a substantial interest in TerraVest. Over the next few years, Clarke forced out the old management and began fixing the company. The strategy was to divest TerraVest's divisions and pay large dividends with the proceeds.

Right around the time that it got involved in TerraVest, Clarke invested in another public company called Granby Industries, which made heating oil storage tanks. Granby was in financial distress, and Clarke privatized it in 2008. Granby had two big problems. The first was a weak balance sheet. The second was a small competitor run by a shrewd entrepreneur in his early 30s. Using his connections, he was able to procure steel directly from the mill rather than through distributors, as small players normally do. Sensing weakness and leveraging his discounted steel prices, he attacked Granby by starting a price war in its main geographical market. This was enough to push Granby into distress. That shrewd businessman was Charles Pellerin, TerraVest's current Executive Chairman.

After taking over Granby, Clarke agreed to combine it with Charles's company to form a new entity, Gestion Jerico. Clarke owned 75% of Jerico and delegated management to Charles, who owned the remainder. Charles's business savvy allowed him to parlay his stake in an insignificant player to 25% of North America's dominant producer of heating oil tanks. This was an early glimpse of his talent.

While Clarke was liquidating TerraVest, Charles was building Jerico. With its balance sheet repaired and the price war having ended, Granby was generating significant free cash flow. Charles wanted to use that cash to grow. He made four small acquisitions between 2010 and 2012. But heating oil tanks are a stagnant market, and Charles decided that he needed to diversify. Then, in August 2013, he bought Pro-Par Group, a producer of propane tanks and trailers. This was Jerico's largest deal and first attempt in earnest to expand into an adjacent market. It was a big success. This theme of continually expanding into new, but related markets would later power TerraVest's growth as well.

Even as Jerico was integrating Pro-Par, a bigger transaction was in the works: the sale of Jerico itself to TerraVest, which closed in February 2014. For Clarke, this was a way of cashing in some of its chips. For years, it had been monetizing assets and using the proceeds for buybacks. By selling Jerico, Clarke could raise more capital for repurchases while retaining some exposure through its interest in TerraVest. Clarke chose to sell its 75% interest for cash.

Conversely, Charles saw great opportunity in this combination. Jerico was in a fragmented industry that was loaded with acquisition targets. One of TerraVest's two divisions, RJV Gasfield Services, a manufacturer of natural gas processing equipment, was also in a fragmented market with consolidation potential. Charles exchanged his 25% interest in Jerico entirely for TerraVest stock and became Executive Chairman.

Charles had several other professional and business interests and did not yet spend most of his time on TerraVest. Helping Charles run TerraVest at a strategic and capital allocation level was Dustin Haw, VP Investments at Clarke. Dustin oversaw Clarke's investment in TerraVest. As TerraVest grew and as Clarke continued to whittle down its portfolio, leaving fewer positions to manage, Dustin became focused solely on TerraVest and became its de facto CEO.

By early 2017, while still in his early 30s, Dustin left Clarke and officially became full-time CEO.

The acquisition of Jerico in 2014 transformed TerraVest's strategy from liquidation to growth. Within a few months, TerraVest acquired NWP Industries, a competitor of RJV's in the energy processing equipment space, and it was off to the races. TerraVest has been on a remarkable run, completing 26 acquisitions (including the purchase of Pro-Par by Jerico a few months before Jerico combined with TerraVest) at incredible returns on equity capital and occasionally repurchasing shares at fire sale valuations.

STOCK PRICE SINCE DUSTIN HAW TOOK OVER AS CEO (2017)

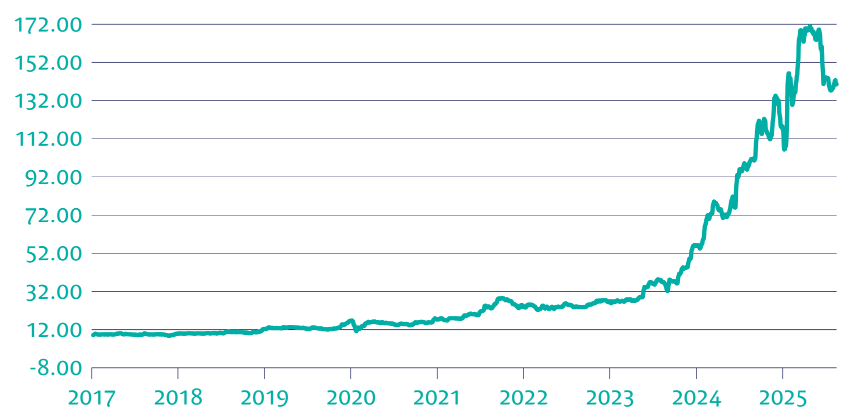

Chart 1: Source: CapitalIQ as of October 15, 2025

TerraVest's petroleum container product – a tanker with style.
Drivers love their trucks and stay loyal to the brand.

Top Left: Charles Pellerin, Executive Chairman TerraVest Industries Inc.
Top Right: TerraVest stand at an industry fair
Above: Matthias Riechert and Aakash Vanchi Nath, P&R Investment at the stand

Matthias **How did you learn about this opportunity? When did you become involved?**

Guy I mentioned earlier Rational's competitive advantage in the Canadian market. Along that vein, I had known Clarke and its insiders for years when they took control of TerraVest. I had seen Clarke execute its turnaround playbook successfully before and believed that it could do so again at TerraVest. Meanwhile, the stock was depressed due to the dividend suspension, trading at an estimated 4x free cash flow. We invested in the stock as a cheap special situation with a catalyst.

We started buying in 2009 and continued to accumulate through 2012 at an average cost of a little over $2 per share.

Under Clarke's influence, TerraVest paid $1.65 per share in special dividends with the proceeds of asset sales and instituted a regular dividend of $0.40 per share. When TerraVest announced that it was acquiring Jerico, I initially interpreted it negatively: it was a complete departure from TerraVest's liquidation strategy and a related-party transaction. We had already been trimming the position and this development prompted us to dispose of it completely. We made around 150% on our investment.

(in m$CAD)	2017	2018	2019	2020	2021	2022	2023	2024
Revenues	192.5	269.9	306.3	304.3	307.5	576.7	678.4	911.8
Gross Profit Margin	22.8%	22.8%	23.1%	23.8%	26.2%	21.6%	24.5%	28.9%
Adj. EBITDA	25.2	41.6	49.3	43.5	48.6	86.7	121.6	189.6
Margin	13.1%	15.4%	16.1%	14.3%	15.8%	15.0%	17.9%	20.8%
Cash avail. for distribution	12.2	27.1	30.8	36.6	36.7	54.6	75.9	104.4
Cash Acquisitions	18.7	14.9	9.4	9.4	38.5	37.8	17.9	144.9
Cash Earnings/Share	0.66	1.54	1.74	1.96	2.09	3.05	4.24	5.35
Equity	86.1	88.3	100.5	125.9	132.1	183.6	217.1	367.7
Long-term Debt	24.1	78.5	109.8	103.7	158.7	239.6	206.2	188.9

Table 1: Financial overview
Source: Company information and P&R Investment. As of October 15, 2025

I continued to monitor TerraVest after divesting it and noticed a surge of insider buying in the ensuing months. The biggest buyer was Charles. Seven other executives and directors joined him in buying TerraVest. I was intrigued, so I called my contacts at Clarke in an effort to better understand what was going on. I had several calls with Clarke's CEO and with Dustin (who was still Clarke's VP Investments). I asked them to introduce me to Charles – the architect of TerraVest's M&A strategy – and had many discussions with him as well.

What I learned was that the markets they were pursuing had hundreds of small companies with mom-and-pop owners. Transactions multiples were generally in the range of 5x EBITDA and these businesses tended to have ample synergy potential, resulting in low-single-digit multiples on a post-synergy basis.

With Charles in particular, I delved in great detail into all of Jerico's past deals, the opportunities TerraVest was presently targeting, and his long-term strategy. We also talked about deals that didn't happen and why – deploying capital intelligently requires discipline and the ability to walk away. Throughout these conversations, I was very impressed both with the information Charles provided and, no less importantly, with Charles himself.

Based on these discussions, it was clear to me that a great opportunity lay before TerraVest and that the people who would be executing on that opportunity were exceptional. At the same time, the stock was trading at 7x FCF as the market had no idea what was happening inside this company. And so, just a few months after completing our exit, Rational bought TerraVest again. Actually, not only did Rational buy it back, but it went from what had previously been a small holding at 3% to 4% of NAV, to a major position. In fact, it became largest position in Rational's history.

Admitting to myself that I had screwed up by selling it in the first place and buying it back (at a higher price!) was one of the best decisions I've ever made.

Matthias **Buying TerraVest back shows a remarkable mental flexibility. Especially if you had to pay more than what you sold it at previously. What allowed you to overcome psychological biases that normally prevent investors from doing that? What can other investors learn from your experience?**

Guy I've been reading about behavioral finance and cognitive biases for over twenty years. I named my fund "Rational" because of an anecdote in Charlie Munger's speech about cognitive biases, "The Psychology of Human Misjudgment." My favorite book is The Psychology of Intelligence Analysis, which on the surface has nothing to do with investing – it dealt with how to minimize cognitive biases at the CIA. I could ramble endlessly about this topic!

Success in investing is all about making good decisions, so combating those factors that can systematically interfere with your decision-making is critical.

Biases are a fact of life. You cannot eliminate them, but you can work around them with self-awareness and intellectual honesty. Ultimately, it's about being honest with yourself, even when it feels painful to do, because you realize that not doing so will be far more painful down the road. Studying biases, identifying my specific vulnerabilities and adopting tools for dealing with them has been a game-changer for me.

TerraVest was a situation in which I discovered evidence that disconfirmed my prior belief. I initially concluded that the Jerico deal was bad because it deviated from TerraVest's previous strategy and was a related-party transaction and that, therefore, the stock was no longer an attractive investment. But the new evidence that I had uncovered demonstrated that the opposite was true: the Jerico deal, the new strategy, and the people implementing that strategy were phenomenal, and the stock was a screaming buy even at its higher price.

Clearly, I should not have sold it in the first place. But how would refusing to reinvest have fixed that? Sure, it might have protected my ego in the short term by sparing me from having to admit that I was wrong. But that short-term relief would have had disastrous consequences by making me miss out on an incredible opportunity. As Confucious wisely said, "A man who has committed a mistake and doesn't correct it, is committing another mistake."

A big reason that it is so difficult to deal with disconfirming evidence is confirmation bias, which is the tendency to overweight information that confirms our preexisting beliefs and to downplay information that contradicts them.

The mind is hard-wired to avoid negative thoughts and feelings as a protection mechanism, so it distorts our perception of reality in order to ignore or reject contradictory information.

To avoid confirmation bias, when I uncover disconfirming evidence, I write it down quickly and save it in my research files. That way, my mind does not have a chance to ignore the information or repress it from memory. I reflect on what I've learned, and then I ask myself: if I never owned this stock, would I buy it now, and what would I size it? For TerraVest in mid-2014, I think any reasonable analyst who had done the due diligence that Rational had done would've answered this question with a resounding "yes."

> Asking yourself these sorts of questions and forcing yourself to answer them is immensely helpful. I have a variety of them for different situations. When the decision is particularly important or difficult, I answer them in writing.

It's tempting to dismiss these things as simple tools for weak minds, but I think it's precisely the opposite. My practice of quickly writing down disconfirming evidence came from a story Warren Buffet once told of Charles Darwin, who did this while conducting his scientific research. Benjamin Franklin used written pro-con lists to help make hard decisions because he realized that the limits of working memory made it difficult to simultaneously consider all of the relevant factors and prioritize between them. I've adopted that one too, again to great effect. If the likes of Darwin and Franklin saw the value of applying these tools, can they really be beneath any of us?

Matthias **How has TerraVest's capital allocation record been thus far?**

Guy Extraordinary. For over a decade, TerraVest has been acquiring companies at low-single-digit EBITDA multiples after synergies, on average. Incorporating assumptions for things like capex, taxes and leverage, this translates into 25% to 30% after-tax, levered returns on equity capital. As a result, estimated free cash flow next year will be up nine times in a decade or 25% annually. I use next year (i.e. the fiscal year ending September 30, 2026) in order to incorporate a full year's contribution from acquisitions that closed year-to-date, as fiscal 2025 has been unusually active on the M&A front.

Not only have Charles and Dustin not slowed down, but they've managed to accelerate the pace of their acquisitions and, consequently, TerraVest's growth rate. Indeed, based again on estimated free cash flow next year, the three-year compounded growth rate will be 34%.

$CAD CASH EARNINGS PER SHARE

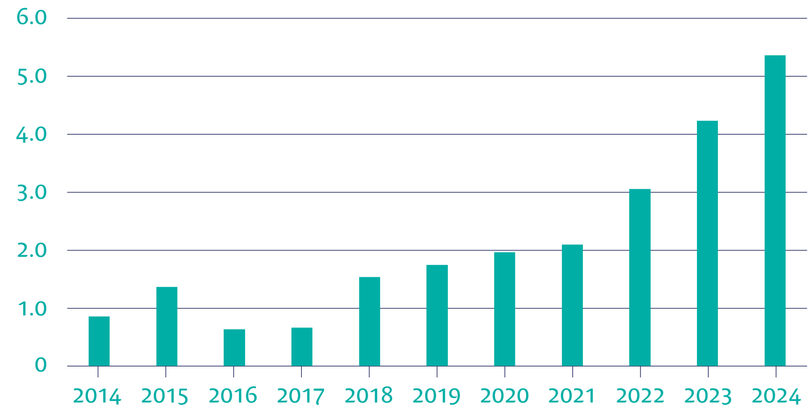

Chart 2: Free Cash Flow per share over ten years.
Source: Company filings and P&R Investment. As of October 15, 2025

I am under no illusions that TerraVest can keep this up indefinitely, though I do believe that the ingredients are in place for it to continue growing at an impressive rate in the future.

> Years of shrewd acquisitions have also transformed the quality of the business. In 2014, when it acquired Jerico and embarked on its M&A strategy, TerraVest was little more than a couple of tank manufacturers and a couple of divisions serving the oil and gas sector. It was small and cyclical with energy services accounting for the bulk of its profits. Since then, a decade-plus of consolidation has cemented its cost advantage over peers, given it dominant market share in several of the markets in which it operates, made it more diversified and far less cyclical, and added managerial depth and quality.

TerraVest has also repurchased shares aggressively when it's made sense to do so. In 2018, it bought back 10% of its diluted shares outstanding over six months through two tender offers, and in 2021, it reduced the share count by 6% in eight months. These bursts of activity retired 17% of TerraVest's diluted shares at $12.76 per share –

approximately one-tenth of the present stock price and just 7x forward free cash flow at the time the repurchases were made. However, it's important to stress that acquisitions are where the company generates its highest risk-adjusted returns and are by far its most important investment activity and growth driver.

Matthias **How do they achieve the strong acquisition economics you referenced?**

Guy For starters, let's not forget the importance of fishing in the right pond. They are in fragmented markets with hundreds of targets, the vast majority of which are relatively small, family-owned businesses.

There is little competition for deals and acquisition multiples are typically around 5x EBITDA before synergies with low maintenance capex requirements.

On top of that, management excels at extracting synergies. It significantly reduces acquired businesses' raw material costs, especially for steel, due to its purchasing scale. It automates production processes to reduce labor costs and increase capacity. It rationalizes unproductive workers and unprofitable product lines. It leverages the rest of TerraVest's portfolio of businesses to cross-sell products, insource manufacturing activities at a lower cost, utilize excess capacity, and so on. It is not afraid to raise prices where the sellers of the business underpriced their product because they didn't want to take any chances with their most important asset, while TerraVest can take a portfolio approach.

I'll give you some case studies. We talked about Pro-Par, the seminal deal in which Charles began to diversify out of heating oil tanks. The original multiple was 6x EBITDA. TerraVest has since expanded Pro-Par's building, added a manufacturing line, and automated production. EBITDA has tripled. Including the acquisition price and subsequent growth capex, TerraVest paid around 3x EBITDA after synergies. By opening up a new vertical (propane and anhydrous ammonia tanks and delivery vehicles), Pro-Par also paved the way for the future acquisitions of Signature Truck Systems, Fischer Tanks, MaXfield Group, Countryside Tank, Mississippi Tank and TSX Transport, and many more targets remain in this space.

TerraVest acquired NWP Industries in 2014 for 4.5x EBITDA. This was its first deal after acquiring Jerico and pivoting to a growth-by-acquisition strategy. TerraVest automated several processes and insourced others where it had in-house expertise at RJV, another portfolio company that made the same products. It also shifted production between RJV and NWP to make each more efficient. Since the acquisition, NWP's EBITDA has also tripled, giving this deal an EBITDA multiple of roughly 2x, again including subsequent growth capex.

Another example is ECR, a producer of furnaces and boilers acquired in 2021. Remember how TerraVest grew Pro-Par by expanding capacity? At ECR, it did the opposite, discontinuing products and cutting associated staff. ECR's president was wasting money trying to develop a new smart thermostat like Google Nest; TerraVest got rid of both the project and the president. Management ultimately shut down one of ECR's two plants and sold the real estate, reducing its effective purchase price. By our estimates, TerraVest paid 3x EBITDA for ECR.

A few months after buying ECR, TerraVest announced the acquisition of a controlling interest in Green Energy Services. It accumulated its stake by gradually buying out certain shareholders and injecting capital to finance acquisitions. Green enabled TerraVest to enter an attractive new vertical with consolidation potential: water management services to the Canadian energy sector. Green has now executed five acquisitions at low-single-digit multiples. Including TerraVest's initial purchase consideration and its share of the cost of Green's subsequent growth capex and acquisitions, it paid approximately 3x current EBITDA on a material amount of capital.

TerraVest bought Highland Tank in late 2023. It is cutting steel costs and cross-selling products between Highland and other portfolio companies. More importantly, Highland enabled entry into several attractive adjacencies, including wastewater treatment systems, grease removal systems and water storage tanks. It also is one of the leading manufacturers of specialized tanks used for backup cooling of data centers. John Jacob, who previously co-owned and ran the company and whom TerraVest considers superb, stayed on as president following the sale and is spearheading the consolidation of these markets. TerraVest acquired Highland for around 3x current EBITDA and the deal laid the groundwork for many more attractively-priced deals.

Looking at the above examples and numerous others, you can't help but notice the many disparate ways in which management wrings value out of acquired businesses. The common denominator here is TerraVest's enterprising culture. The company is very aggressive at pursuing every possible opportunity for improvement.

Matthias **You touched on Charles and Dustin. Can you elaborate on management?**

Guy Charles, TerraVest's Executive Chairman and lead shareholder, and Dustin, its CEO, are by far the most important people at the company. They are most responsible for its capital allocation decisions and for creating its decentralized and entrepreneurial culture.

Charles is what I call a force of nature: highly energetic, aggressive and direct. I was not at all surprised when I learned that he was a starting defensive tackle for his college football team. At the same time, he is strategic and open-minded. He is also charismatic and has amazing business instincts. Charles is truly a rare combination of skills.

Dustin graduated from university in 2011 with a PhD in physics, but decided that he preferred investing. He began working for a private investment vehicle of George Armoyan, Clarke's controlling shareholder, in 2012 and switched to Clarke the following year, where he became involved with TerraVest. He is very intelligent, analytical and hard-working. He is a deep thinker but also a pragmatist.

Although their personalities differ, Charles and Dustin share a few important traits. They think rationally about capital allocation.

They have the vast majority of their net worth invested in TerraVest. They are extremely ambitious. And with Charles being 50 years old and Dustin 41, they will both continue building TerraVest for decades.

I have a good story about that last point. On one of our calls about three years ago, Dustin mentioned that nearly all of TerraVest's acquisition targets are owned by baby boomers. All of them will eventually retire and most won't have an heir to pass their businesses on to and will end up having to sell. He was excited about the fact that in the next twenty years, he will get to see every one of these businesses come up for sale and have a chance to acquire them for TerraVest. I was excited that he envisions himself spending the next twenty years at TerraVest! Dustin is not prone to hyperbole and I believe that he was being genuine.

Matthias **What is TerraVest's culture?**

Guy Another thing Charles and Dustin have in common is their belief in a decentralized, entrepreneurial, meritocratic culture. They have a knack for identifying talented people and giving them increasing responsibility and autonomy. The most obvious example is Charles recognizing Dustin's abilities and making him CEO in his early 30s, but there are many others.

For instance, when TerraVest bought NWP in 2014, management was impressed by the company's president, Mitch DeBelser, a scion of the selling family who was only 29 at the time. While they paid the rest of the family in cash, Charles and Dustin insisted on issuing TerraVest shares to Mitch in order to incentivize him to stay and help grow the business. They soon made him president of the entire segment where NWP is a subsidiary. As he continued to excel, they let him run subsidiaries outside of that segment in order to keep him engaged. Today, he runs the propane and ammonia business, one of TerraVest's most important verticals.

> It is difficult to preserve a decentralized culture as a company expands. It means having more operating subsidiaries maintaining their own brands, producing their own P&Ls, and sometimes doing things differently than upper management would. TerraVest could realize short-term efficiencies by integrating more, but management realizes that this would make it harder to keep enterprising managers motivated and engaged. Entrepreneurs don't like having ideas foisted on them by head office. And remember, some of TerraVest's top leaders, such as John Jacob at Highland Tank and Ken Wagner and his team at Green Energy Services, are real entrepreneurs who sold businesses to TerraVest and have enough money to quit as soon as they lose interest.

Speaking of John and Ken, they are examples of divisional presidents who not only oversee operations but also find and negotiate acquisitions. John has sourced one deal since Highland was bought a year and a half ago, and Ken and his team have done a handful for Green since TerraVest became involved. This has been a key enabler of TerraVest's accelerated acquisition activity the past few years.

> TerraVest has also been thoughtful about compensation as a tool to incentivize and align its most talented managers. A few years ago, it introduced a new incentive plan for its top executives with two components. First, they earn a cash bonus based on performance targets for the operations they manage. Second, the bonus is used to purchase TerraVest shares on the open market, which must be held for a minimum period. Executives can choose whether to take their bonus in shares, but if they do, 100% of the bonus (adjusted for taxes) must be invested. TerraVest offers a bump in the bonus to encourage them to participate. So far, nearly every eligible executive has done so.

This plan motivates executives to excel by rewarding them based on factors they directly control. It creates true alignment because they invest in TerraVest with their own hard-earned cash and thus have the same downside as all shareholders, unlike stock option and performance share structures used by most public companies. And it achieves this alignment with zero dilution because the shares are bought on the open market. Management deserves credit for its willingness to adopt this unconventional but effective approach.

Matthias **What do you think the future looks like for TerraVest? How long is the runway?**

Guy In the early days, my single-biggest question about TerraVest was: how long can they keep this up? When would compounding bring the company to a size where it could no longer deploy enough of its free cash flow into the sorts of deals we were used to seeing in order to move the needle? I still don't know the answer to that. But so far at least, far from slowing down, TerraVest has actually ramped up the pace of dealmaking.

I provided a table showing the historical percentage of free cash flow invested into TerraVest's main avenues for value creation: acquisitions, growth capex and share buybacks. Before delving into the numbers, I want to note that the cash flow figures used here are based on Rational's proprietary calculations including various normalization and accounting adjustments, removal of non-recurring items, etc.

> I'll give you an example: TerraVest has less than full ownership of an important subsidiary, but accounting rules require it to consolidate 100% of that subsidiary's results. There is a "non-controlling interest" line in TerraVest's financial statements representing the minority owners' proportional share of the subsidiary's equity (on the balance sheet) and net income (on the income statement), but discrete line items are reported on a 100% basis in the financials. This does not reflect the reality that TerraVest does not have an economic claim on a certain percentage of this subsidiary's sales, expenses, capex and the like. If you do not adjust for this, important metrics like price-

to-free cash flow, debt-to-EBITDA and ROIC will be off. My first job out of university was at a firm founded by forensic accountants, so I always dig into the accounting and never take the reported numbers at face value.

As the table demonstrates, the three years with the highest level of spending, both overall and specifically on acquisitions, all came in the past four years. Further, acquisition spending as a percent of free cash flow doubled from 69% between 2015 and 2020 to 144% from 2021 to 2024. I've excluded fiscal 2025 from the table because full-year financials are not yet available, but it's important to add that this is going to be a record year for acquisition spending based on transactions already completed year-to-date.

How has TerraVest done this? First, the acquisition environment has become friendlier. The normalization of interest rates in recent years has tempered seller expectations and turned middle-market private equity funds from a competitor for deals to a source of deals. Second, greater size has given the company greater economies of scale, especially on steel purchases. This, in turn, allows TerraVest to create more synergies on each deal. At any given acquisition multiple, TerraVest earns higher returns on equity capital on a post-synergy basis.

TERRAVEST: INVESTMENTS OF FREE CASH FLOW BY FISCAL YEAR

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Aquisition cost	80%	28%	131%	73%	36%	65%	209%	169%	25%	175%
Growth capex	3%	0%	24%	22%	32%	0%	22%	12%	0%	19%
Growth investments	**82%**	**28%**	**155%**	**95%**	**68%**	**65%**	**231%**	**181%**	**25%**	**194%**
Buybacks	4%	27%	14%	58%	30%	14%	78%	2%	2%	0%
Total ex-dividends	**87%**	**55%**	**169%**	**153%**	**99%**	**78%**	**308%**	**183%**	**27%**	**194%**

Table 2: Over the past four years reinvestments in M&A have picked up significantly.
Source: Rational Investment Group, as of July 31, 2025

Another factor is that TerraVest has added talented entrepreneurs via acquisition who can execute their own transactions, and has a culture that empowers them to do so. I cited Ken at Green and John at Highland earlier as examples. This has increased TerraVest's bandwidth for deals. On the topic of management, let's not forget that a decade ago, Charles was 40 years old and had only recently begun to diversify his relatively small business beyond heating oil tanks, while Dustin was a 31-year-old investment analyst who had never run a company. Though their talent was undeniable even back then, years of experience have made them better.

Another takeaway from the table I provided is that repurchases have fallen precipitously in recent years. I expect this to persist going forward due to the increased capital consumed by acquisitions. Even when TerraVest was undiscovered and its stock was cheap, acquisitions carried better risk-adjusted returns than buybacks. That is doubly so today as the stock's multiple has expanded. Therefore, the more capital TerraVest can devote to M&A, the better.

I think that TerraVest can continue to execute its acquisition playbook for the foreseeable future. The runway is very long. There are hundreds of prospective targets and that pool keeps growing as TerraVest enters more adjacencies. These markets are huge – just think about how many things are stored and transported in some kind of tank or vessel.

Lastly, one shouldn't underestimate management's ability to branch out into new verticals. There are many niche markets unrelated to tanks in which TerraVest can make acquisitions at reasonable multiples, cut steel costs, automate production, expand or rationalize as circumstances warrant, and consolidate a fragmented space. There is no rush because there remains so much to do in TerraVest's existing verticals, but this is something management is already thinking about.

Matthias **You mentioned that this was the largest position in your fund's history. What are your thoughts on maximum position size?**

Guy I don't have a strong view on what a maximum position size should be, but I do have one on portfolio concentration, which directly affects position sizing in general. Extraordinary investments are rare. Extraordinary investments that are in one's circle of competence are still rarer. You can't find thirty, or for that matter twenty, incredible ideas at any given time. Why dilute your very best idea with your twentieth-best, which will inevitably be of far lower quality?

A common retort is that concentration increases risk. There are indeed cases where this is true. Someone who doesn't know how to analyze businesses, doesn't have the time to do so, or lacks the temperament to make rational investment decisions should widely diversify. Ditto for practitioners of some strategies like merger arbitrage or startup investing. Otherwise, I disagree that concentration increases risk. On the contrary, I contend that, if practiced properly, it may well reduce it.

> Think about it: as a concentrated investor, you reject almost every idea you come across. What many investors might happily add, you turn down –because it is good, but not quite good enough.

You vet every investment with much greater intensity and insist on being supremely confident before committing your capital. From a risk perspective, the benefit of greater selectiveness and focus offsets the fact that you allocate more to each position. Bottom line, I believe that six to eight carefully-chosen investments can earn better returns than the dozens of names held by the vast majority of professional investors without a measurable increase in risk.

Matthias **How have you managed the position over the years?**

Guy Managing our position sizing in TerraVest has been one of the biggest challenges of my career. Realizing that TerraVest warranted a big bet was easy. As the thesis materialized, the stock rose, but so did

Rational's knowledge of the business, relationship with management, and conviction in the investment. And all the while, the stock remained a bargain – it was not until last year that it eclipsed ten times forward free cash flow on a sustained basis. Where does the balance lie between prudent risk management and capitalizing on an opportunity that is exceedingly rare and in which you have extreme confidence?

Given the fact that it has been a major holding for eleven years and is up over twenty times since then, we have of course trimmed our interest in TerraVest over time. That being said, it remains our largest holding today. Rational's overarching goal is to build a concentrated portfolio of undervalued compounders like TerraVest. This is not easy, because businesses that can compound sizeable amounts of capital at compelling returns seldom trade inexpensively. That's why, when we do find something special, we are inclined to own it for the very long term as long as our thesis remains intact. I expect that TerraVest will remain a part of our portfolio for years to come.

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