

EUROPEAN DISCOVERY STORIES

KSB

Going off the beaten track to discover under-the-radar
German engineering excellence.



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Sometimes a picture says it all. Below is a photo from a recent research trip we took to Germany that perfectly illustrates the market opportunity: underneath the surface detritus is one of the world's best high-performance vehicles that someone has forgotten to love.

The multiple macro and geopolitical headwinds faced by Germany have created a lot of surface noise, but under the bonnet, there are some amazing businesses. Like the

rest of Europe, Germany offers investors some extreme value opportunities; it is currently one of the cheapest markets in the region.

Our investment approach is based on discovering under-the-radar small-cap companies that offer both attractive portfolio diversification benefits and the potential for double-digit returns. We have been deeply analysing the German market and buying into some great businesses at incredible prices. KSB provides an excellent example.

This is not an investment recommendation. This example is designed to illustrate our investment process.

AN UNLOVED GERMAN POWERHOUSE



Image source: Mirabaud Asset Management



KSB is an industrial pump-maker founded in 1871 and based just outside Frankfurt. The company upholds the adage that if you want something built, Germany is one of the best places to go. Quality is king in all the sectors KSB serves, but the stakes are extra high in its nuclear division, where the water temperatures involved are so high that if a pump fails it can cause a critical event. KSB is the world's leading pump supplier to nuclear power stations, highlighting the quality of its technology and products.

Alongside functionality, it also does suitability very well. Across the industries KSB supplies, water is an increasingly precious resource. Pumps are critical for using water most efficiently – getting fresh water where it needs to be and ensuring wastewater is moved to safe discharge zones. Wastewater is the second-biggest division at KSB. In the mining sector, a replacement cycle is underway to implement 'smart' pumps that are more water and energy-efficient. Energy

efficiency is paramount in nuclear due to the amount involved in the processes and the global need to reduce emissions. 40% of the lifecycle costs of a pump are energy¹.

KSB exemplifies the type of company we target in our Discovery strategy: a true smaller company with a market cap of EUR1.4bn. The stock is unloved with only three local bank analysts covering it, making the valuation very attractive if investors return to Germany.

So what's next for KSB? The big focus is to expand from only selling pumps to providing long-term product maintenance services – these are higher margin and give the firm good visibility beyond the initial equipment sale. Customers typically pay c.9x the price of a pump in servicing and parts. From our perspective, the servicing model can expand the margin in the business. The model is made more robust by the increasing complexity of pump technology,

KSB PUMP COMPONENTS

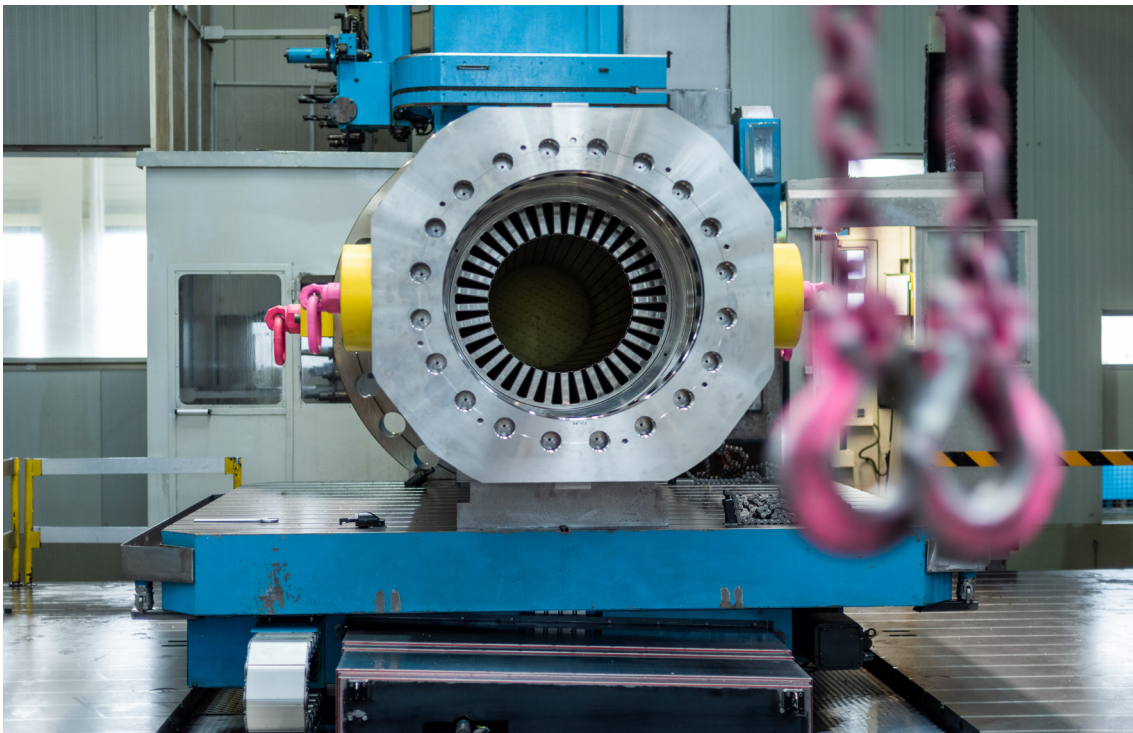


Image source: KSB

¹ KSB internal figure

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reflecting the influence of the IoT. The pumps are becoming less mechanical and increasingly computer-based, driving up the need for propriety servicing support and keeping the client within the KSB ecosystem well beyond the point of sale.

KSB is currently a top holding in the strategy that has been a strong contributor to returns and makes the case for why in European equities, small can be beautiful.

To read more on the European small-cap investment case, [click here](#).

INSIDE KSB'S FRANKFURT FACTORY

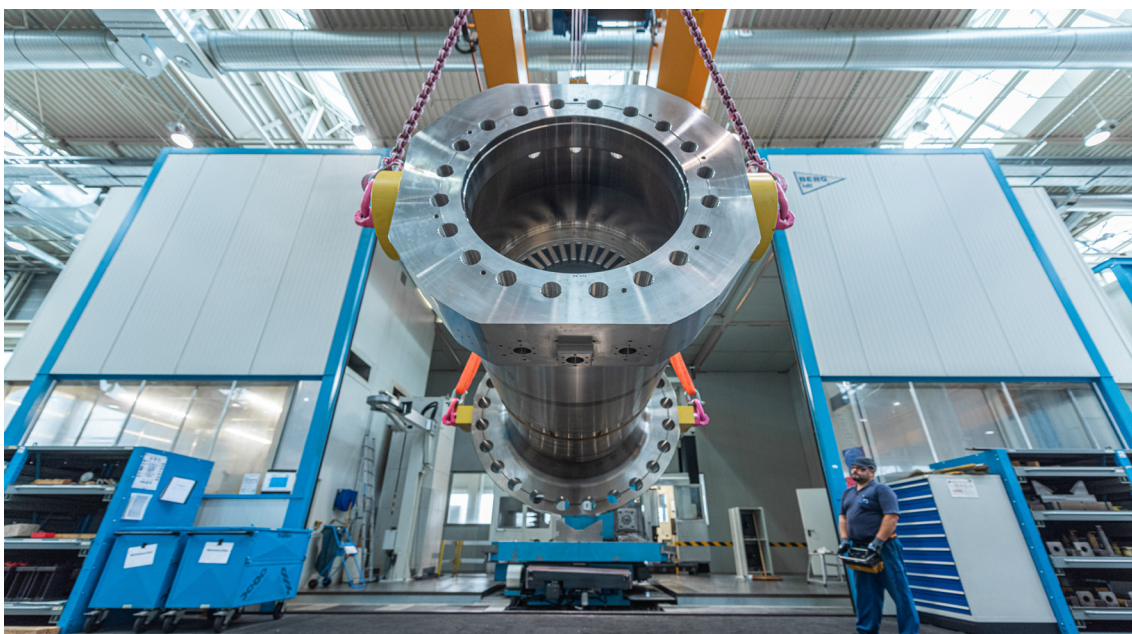


Image source: KSB



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