Alluvial

CAPITAL MANAGEMENT, LLC

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- **This presentation concerns an extremely small company with highly illiquid shares. DO YOUR OWN DUE DILIGENCE BEFORE INVESTING.**

About Alluvial

- Alluvial Capital Management, LLC is a registered investment advisor in Sewickley, Pennsylvania. Alluvial's principal is David Waters, CFA. Since 2014, Alluvial has managed client capital with a focus on little-known and over-looked securities.
- Alluvial conducts extensive fundamental research to identify under-valued securities in developed markets world-wide. By seeking out niches where larger funds cannot or will not invest, Alluvial identifies unique and attractive investment opportunities.
- Alluvial's discretionary assets under management are approximately $45 million.

We.Connect SA

Euronext Paris: ALWEC

November 2022

Introducing We.Connect

We.Connect is a French IT distributor with 3 core businesses, 17 brands, and 1600+ customers:

- **Hardware/Software distribution**: PCs, laptops, tablets, hard-drives, software, etc.
- **White-labelled products**: Low-cost electronic peripherals like tripods, webcams and connectors.
- **Custom IT solutions**: Bespoke manufactured PCs, network equipment, and other services for large corporate clients.

Summary Statistics:

- **Market Capitalization : €41m**
- **Trailing P/E: 6.2x**
- **Normalized 2022 EV/EBITDA: 5.6x**
- **Excess Cash and Securities/Market Cap: >30%**
- **Price/Share: €15**
- **5-year Average ROIC: 48%**

Why We.Connect?

We.Connect is a high-quality business that we expect to grow earnings at 15-20% or higher for years to come. Despite this, the company trades at a bargain price.

- **Management alignment**: We.Connect is run by brothers Moshey and Youssef Gorsd, who own >80% of the company.
- **High returns on capital (ROIC)**: The business has earned in excess of 40% ROIC since 2016.
- **Impressive growth**: Revenue and EBITDA CAGRs over 20% since 2016.
- **Durable moat**: We.Connect's ecosystem control and product advantages has created lasting competitive advantages.
- **Strong capital allocation**: A record of accretive acquisitions and a conservative balance sheet that creates optionality.

Business Segments

Distributors – Key Considerations

Product

Management

New Acquisition

Financials/Valuation

Taking Perspective

Conclusion

Business segments

We.Connect has a diversified portfolio of 17 brands. The 3 core business segments, MGF, PCA, and D2 Diffusion, make up the majority of sales. A new acquisition, Dyadem/Octact, expands the We.Connect offering into printing and imaging-related products.

- **MGF**: We.Connect's largest segment with the majority of revenue from corporate accounts. MGF also owns smaller niche brands like Gamium, We.Connect's gaming-focused Alienware competitor.
- **PCA**: Acquired by We.Connect in 2016/2017, PCA is focused on retail PCs and peripherals. It also has smaller business segments such as Heden with a focus on CCTV cameras and other security devices.
- **D2 Diffusion**: A smaller segment that supplies PC components like connectors, peripherals, hard-drives, etc.
- **Dyadem & Octant**: This is We.Connect's newest acquisition and their largest yet. This segment is focused on printers, scanners and printing peripherals, a strategic cross sell product that can have large synergies with We.Connect's impressive PC distribution network

PC corporate sales, Gamium

PCs + home automation, IOT and surveillance

Connectors & peripherals segment

Printers and printing peripherals

NEW ACQUISITION

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Financial characteristics of distributors

- Distributors earn low operating margins, but turn their assets over quickly.
- Working capital management is critical. A distributor is always managing inventory levels, receivables and payables. The distributor's goal is to minimize inventory, collect on sales as quickly as possible, and extend payments to suppliers, all while keeping all parties satisfied and eager to do more business with the distributor. Not an easy task! Strong supplier and customer relationships allow for better pricing and payment terms.
- Most distributors have fairly little in the way of fixed assets, but must carry more and more net working capital as they grow. Free cash flow generation typically lags reported net income while a distributor is growing quickly. See below for an example from W.W. Grainger and Fastenal's highest-growth eras. Distributors have a counter-cyclical cash flow profile where more cash is produced when growth slows or reverses.

GRAINGER — FOR THE ONES WHO GET IT DONE

	Years Ended December 31,		
	1995	1994	1993
Cash flows from operating activities:			
Net earnings	$186,665	$127,874	$148,447
Provision for losses on accounts receivable	7,780	9,928	8,147
Depreciation and amortization:			
Property, buildings, and equipment	57,760	49,795	40,576
Intangibles and goodwill	13,090	14,534	15,395
Restructuring charges--non-cash	--	68,363	75
Change in operating assets and liabilities, net of effect of restructuring charges:			
(Increase) in accounts receivable	(31,563)	(56,268)	(42,593)
(Increase) in inventories	(82,673)	(70,060)	(33,981)

FASTENAL — INDUSTRIAL & CONSTRUCTION SUPPLIES

	1996	1995	1994
Cash flows from operating activities:			
Net earnings	$32,539,000	27,411,000	18,666,000
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation of property and equipment	7,349,000	5,404,000	3,619,000
Gain on disposal of property and equipment	(989,000)	(597,000)	(189,000)
Deferred income taxes	268,000	(218,000)	(298,000)
Amortization of goodwill and non-compete agreement	129,000	–	–
Amortization of premium on marketable securities	6,000	36,000	53,000
Changes in operating assets and liabilities:			
Trade accounts receivable	(9,687,000)	(8,260,000)	(7,883,000)
Inventories	(16,348,000)	(9,267,000)	(8,677,000)
Other current assets	(2,208,000)	(415,000)	(499,000)
Accounts payable	2,128,000	68,000	3,450,000
Accrued expenses	637,000	828,000	1,541,000
Income taxes payable	(1,346,000)	(45,000)	1,501,000
Net cash provided by operating activities	12,478,000	14,945,000	11,284,000

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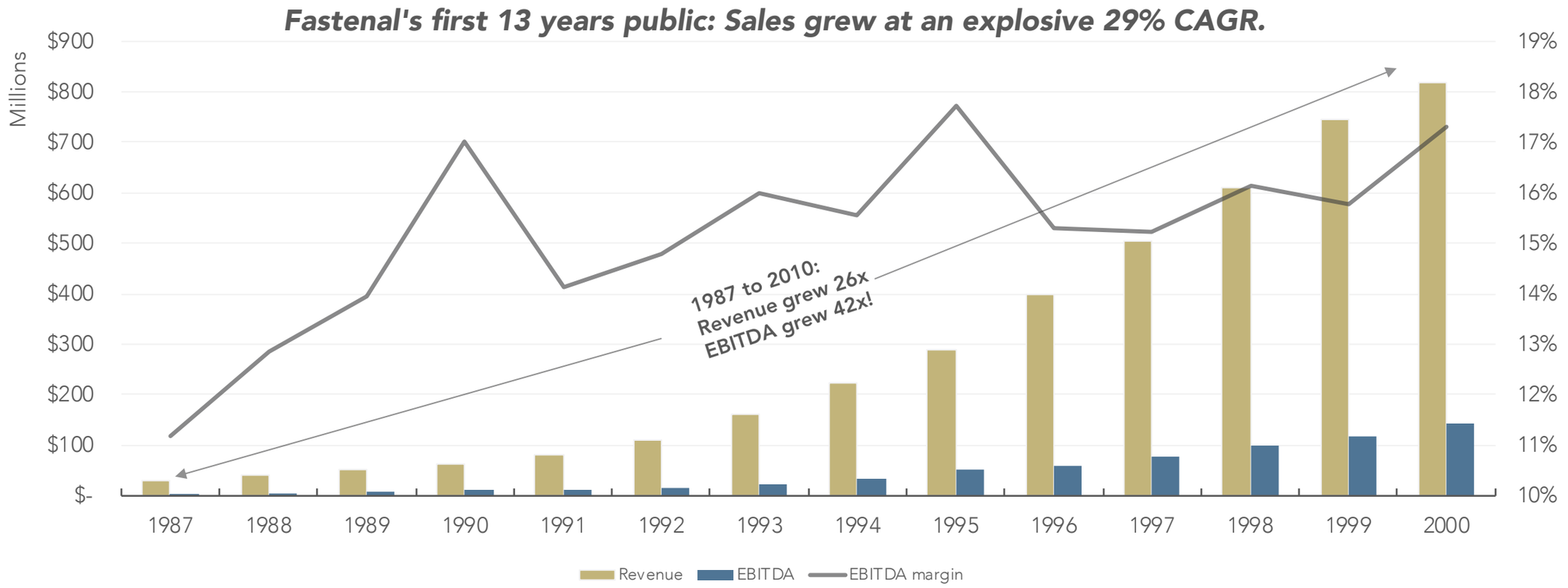
The role of the distributor

- Far more than just a middleman, a good distributor provides a valuable service for both its suppliers and customers.
- A distributor reduces search costs, connecting suppliers and end customers and reducing complexity and expense for each. There is no need for either to manage potentially thousands of relationships when the distributor can perform that function.
- Distributors compete on product availability, price, speed of delivery, and service. Good relationships with suppliers are essential.
- There are numerous examples of successful distributors in public markets. The best example may be Fastenal, an industrial distributor that delivered a 20.1% compounded annual return to shareholders over 52 years!

Seeking outperformance with distributors? Buy early!

- Fastenal and W.W. Grainger produced outsized returns as micro-caps in the late 1980s and 1990s.
- Fastenal sales increased 26x from its IPO to 2000. EBITDA grew 42x from a small base of $3.1m in 1987. We.Connect today is starting from a similarly small base of €10.8 million in 2021 EBITDA.
- As distributors grow, they naturally experience a slowing of revenue growth and a leveling off of incremental returns on invested capital. Better to identify distributors that can still produce outsized revenue and EBITDA growth for decades to come.



Business Segments

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Taking Perspective

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Strong ecosystem control

- Large manufacturers based in Asia struggle to provide retail scale services in Europe.
- We.Connect provides 24/7 service, 48 hour guaranteed delivery and multiple payment options.
- We.Connect also extends credit to larger buyers in the form of accounts receivable.

We.Connect has **valuable partnerships** with large OEMs:

We.Connect brands act like a distribution hub for OEMs.

Gamium is one of many specialized retail brands owned by We.Connect

We.Connect leverages its existing partnerships with supermarkets for new acquisitions.

Market data

We.Connect sells their own ancillaries with OEM products.

Partnerships with telecom providers!

Data on ancillary sales helps We.Connect address the market better

Market data

Brands like MGF able to get competitive pricing for higher margins.

MGF alone has grown EBITDA 21x over the last 7 years!

MGF (We.Connect brand) executes specialized wholesale orders

Private undisclosed clients

Strong product and pricing advantages

- We.Connect has created its own white-labeled products. One example is Gamium. Gamium products are a budget-conscious alternative to brands like Dell Computer's Alienware devices.
- Gamium's average price on gaming keyboards is €51 vs Alienware at €130+. The same dynamic can be seen with other computer peripherals like computer mice and monitors.

Compare

Alienware RGB Mechanical Gaming Keyboard - AW410K - US International (QWERTY)

★★★★★ 5.0 (1)

€131.21

€109.34 excl. VAT • Free shipping

Show delivery dates

Ref. Manufacturer 6W89J
Ref. Dell 545-BBDK

Compare

Alienware Slim RGB Mechanical Gaming Keyboard | AW510K - US Int (QWERTY)

★★★★☆ 4.4 (19)

€151.25

€126.04 excl. VAT • Free shipping

Show delivery dates

Ref. Manufacturer 6P2PF
Ref. Dell 545-BBCL

Compare

Alienware Slim RGB Mechanical Gaming Keyboard | AW510K - US Int (QWERTY)

★★★★ 4.0 (27)

€151.25

€126.04 excl. VAT • Free shipping

Show delivery dates

Ref. Manufacturer JRTW9
Ref. Dell 545-BBCH

Gamium Clavier Gamer Filaire Ultra Mince, Gaming Keyboard USB Ergonomique LED Rétro-éclairage avec Raccou

CLAVIER WE

43€,59

En stock

1 Ajouter au panier

Vendu et expédié par Topbiz ★★★★☆ (21)
Produit neuf vendu par un professionnel. Facture avec TVA 20%.
Livraison sous 2 à 3 jours
Pays d'expédition : France
Produit neuf | Délai de rétractation : **14 jours***, *voir conditions du vendeur

Livraison standard : gratuit - estimée le 10/10/22

Voir les options de livraison

2 autres offres à partir de 46 €57 Comparer

Strong product and pricing advantages

- Besides gaming-related products, We.Connect also offers its own line of IT basics including laptop bags, tripods, keyboards, and much more. This is made possible by We.Connect's strong relationships with manufacturers near its sourcing offices in Shenzhen.
- The We brand is competitive against Amazon basics that are priced aggressively, even on products like Bluetooth noise-cancelling headphones.

Souris sans fil silicone We Noire Silicone anti stress 1000 DPI Dongle USB Plug and Play

13,90 €

Amazon Basics Souris d'ordinateur sans fil avec nano-...

49 712

13,19€

Casque Audio Bluetooth WE

39,96 €

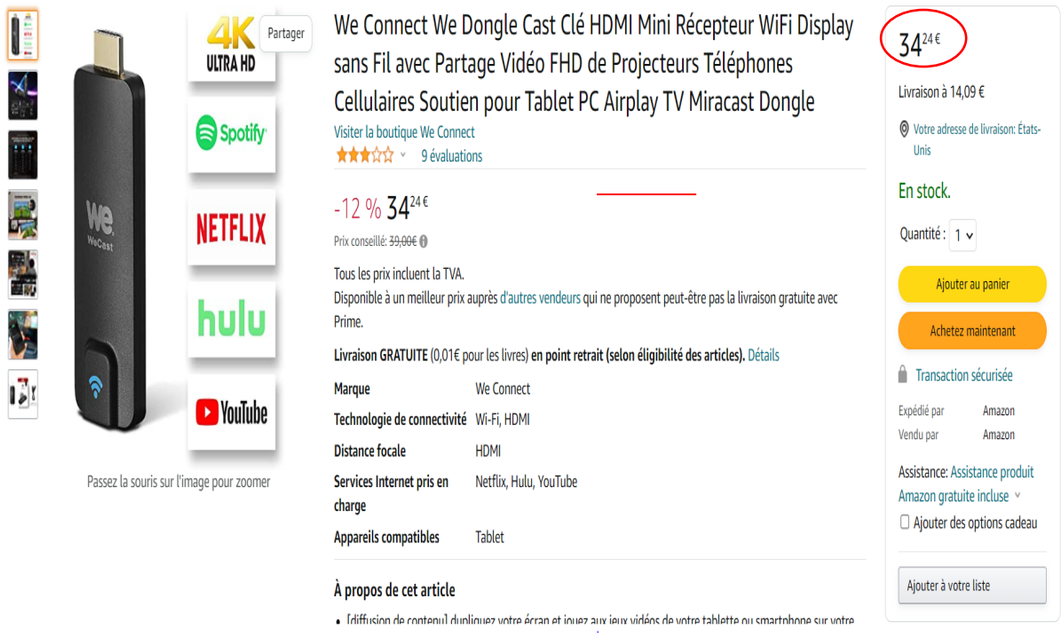
Amazon Basics Casque supra-auriculaire Bluetooth sans fil av...

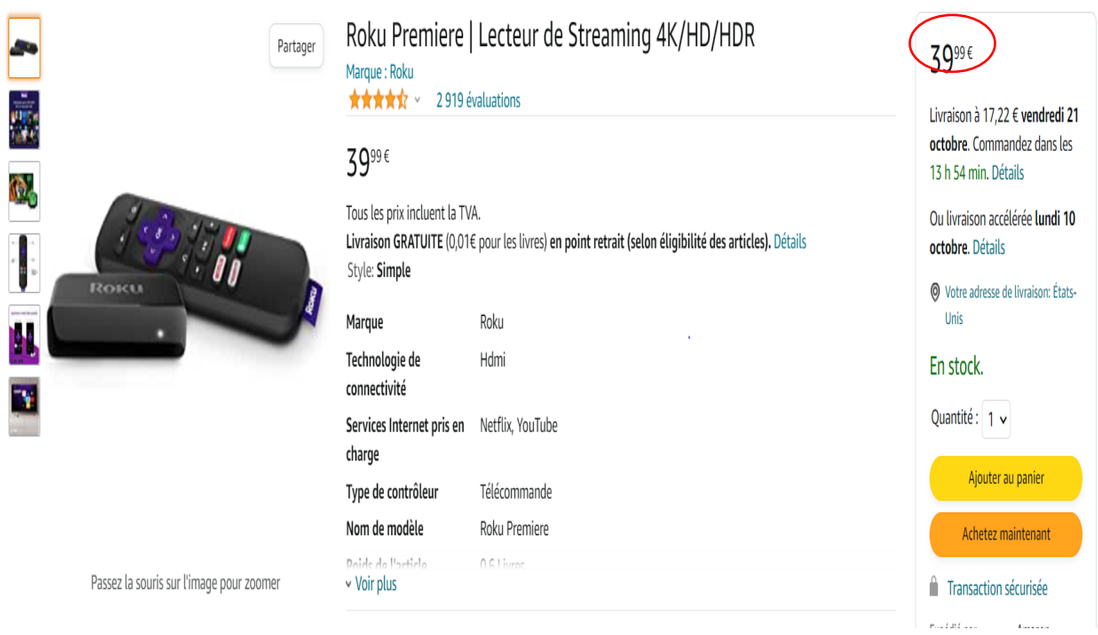
578

54,31€

Strong product and pricing advantages

- We.Connect has even developed its own HDMI-compatible smart TV stick. This product is competitively priced vs Roku and Amazon Fire in France and supports additional video formats.
- If there is a consumer tech product that can be replicated at a cheaper price point, We.Connect will do it!





Business Segments

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Alignment of incentives

- We.Connect has been controlled by founders Moshey and Youssef Gorsd since inception. They own 83% of net shares.
- The founders started from humble beginnings, selling hard drives to small retailers.
- Shareholder capital is precious. Total dilution in the company has been diluted <1% over the last decade.
- Management also makes employees feel like owners. Employees are awarded 150 shares on their birthday.

	Number of Shares	% Ownership	Number of Votes	% of Voting Rights
SP Participations	1,462,328	53.1%	2,920,327	65.3%
Moshey Gorsd	101,108	3.7%	101,109	2.3%
YG Capital	692,118	25.1%	975,039	21.8%
MGF	273	0.0%	-	
We.Connect	2,250	0.1%	-	
PCA France	24,649	0.9%	-	
Others	470,896	17.1%	474,668	10.6%
Total	**2,753,622**	100.0%	4,471,143	100.0%
Net Total Shares	**2,726,450**			

Gorsd Family Holdings → Moshey Gorsd

Treasury Shares → We.Connect

- Moshey and Youssef have taken an insignificant salary (€120k/year) from We.Connect over the past decade. The majority of their wealth creation has been and will be from We.Connect's dividends and share appreciation. Their incentives are aligned with shareholders.

Nom	Rémunération fixe perçue (brut annuel)	Rémunération variable perçue	Indemnités et avantages en nature reçus	Jetons de présence	Rémunération versée	Total
M. Moshey GORSD	120 004,00 €	0 €	6 780 €	0 €	0 €	126 784,00 €
M. Yossef GORSD	119 995,00 €	0 €	6 960 €	0 €	0 €	126 955,00 €
M. Menahem COHEN	0 €	0 €	0 €	0 €	0 €	0,00 €
TOTAL	239 999,00 €	0,00 €	13 740,00 €	0,00 €	0,00 €	253 739,00 €

Management salary → M. Moshey GORSD, M. Yossef GORSD

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Acquisition strategy

- We.Connect has historically performed smaller tuck-in acquisitions, then focused on improving margins and scale.
- A good example is the April 2017 acquisition of PCA France and Halterrego. We.Connect paid €13.8m for PCA and Halterrego. In less than 5 years, PCA alone grew revenue from €18.1m to €100.5m and EBITDA from <€0.1m to €1.8m.
- In April, We.Connect made its **largest and most strategic acquisition yet (Dyadem/Octant)**. This acquisition makes We.Connect a complete, end-to-end distributor of IT products.

PC corporate sales, Gamium

PCs + home automation, IOT and surveillance

Connectors & peripherals segment

Printers and printing peripherals

NEW ACQUISITION

New acquisition

- In April 2022, We.Connect acquired Dyadem, Octant, and Sham. Founded the 1990s, these businesses are focused on the printer and printing consumables space, a new end market for We.Connect.
- Dyadem/Octant have brand partnerships with **Brother**, **Epson**, **HP**, **Lexmark**, **Pantum** and **Ricoh**. These new relationships complement We.Connect's existing relationships with large PC manufacturers.
- Sham is a specialized logistics platform used by Dyadem/Octant. Its inclusion will bolster We.Connect's logistics capabilities.
- The acquired businesses did €59.7m in revenue in 2021 and an estimated ~€2m in trailing EBITDA. The inclusion of these businesses will create a meaningful uplift in We.Connect's profitability in the current year and beyond.

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Historical Figures

- Through H1 2022, We.Connect has grown revenues at 21.7% annualized since 2016. EBITDA has grown at 20.3% over the same timeframe. Return on equity hovers around 20% despite significant excess balance sheet cash and securities.

- Working capital varies but is typically around 15% of revenues at year-end. (Mid-year, net working capital increases to 30% or so as We.Connect prepares for the holiday season. The business is moderately seasonal.)

All figures in EUR millions.

	2016	2017	2018	2019	2020	2021	H1 2022 TTM
Revenues	**75.6**	**93.7**	**122.0**	**155.0**	**211.4**	**217.5**	**222.6**
Gross Profit	**9.1**	**11.1**	**13.2**	**14.5**	**17.5**	**20.0**	**22.0**
Gross Margin	12.0%	11.8%	10.8%	9.4%	8.3%	9.2%	9.9%
EBITDA	**3.9**	**4.6**	**5.5**	**5.9**	**8.3**	**10.3**	**10.8**
EBITDA Margin	5.1%	4.9%	4.5%	3.8%	3.9%	4.7%	4.9%
EBIT	**3.6**	**4.0**	**4.9**	**5.7**	**8.1**	**9.1**	**9.3**
EBIT Margin	4.8%	4.2%	4.0%	3.7%	3.8%	4.2%	4.2%
Pre-Tax Income	3.5	5.2	4.7	4.0	7.0	7.9	8.2
Net Income	**3.4**	**4.6**	**4.3**	**2.4**	**5.2**	**6.4**	**6.6**
Total Assets	20.0	35.9	91.0	112.3	134.1	135.1	170.2
Equity	16.5	16.6	22.9	25.3	29.6	36.1	38.2
Return on Average Equity		28.0%	22.0%	9.7%	18.7%	19.3%	
Net Working Capital[1]	7.5	9.8	21.8	23.4	23.0	33.9	68.3
NWC/Revenue	9.9%	10.5%	17.8%	15.1%	10.9%	15.6%	

[1] Includes 5% of trailing revenues as operating cash.

Normalized 2022 results

- Despite negative 2022 organic revenue growth and higher interest rates, we expect We.Connect to record normalized earnings greater than actual 2021 earnings. Our analysis assumes moderate negative operating leverage and higher rates on average borrowings. Actual debt used to finance working capital was €44.4 million at June 30, but we expect a working capital release of €38 million in H2 2022.
- At €15, we believe We.Connect shares are trading at just 5.7x normalized 2022 earnings. As the company returns to growth in 2023, we expect this ratio to decline even more.

All figures in EUR millions.

	2021 Actual	2021 Normalized	2022 Normalized	Rationale
We.Connect Revenue	217.5	217.5	200.1	-8% organic growth in line with H1 actual
Dyadem/Octant Revenue	-	59.7	54.9	-8% organic growth in line with H1 actual
Total Revenue	**217.5**	**277.2**	**255.0**	
We.Connect EBITDA	10.3	10.3	9.3	-9% growth/diseconomies
Dyadem/Octant EBITDA	-	2.1	2.2	-9% growth/diseconomies +0.5% of revenue synergies
EBITDA	**10.3**	**12.4**	**11.5**	
We.Connect EBIT	9.1	9.1	8.2	Normalized EBITDA less D&A
Dyadem/Octant est. EBIT	-	1.7	1.8	Normalized EBITDA less D&A
Total EBIT	**9.1**	**10.9**	**10.0**	
Net Interest and Other Expense	**1.2**	**0.3**	**0.5**	Assumes average borrowing of €25.3m at 3%, 1.5% yield on cash balances
Pre-Tax Income	**7.9**	**10.6**	**9.5**	
Tax Expense	1.5	2.7	2.4	Assumes 25% French corporate tax rate
Net Income	**6.4**	**8.0**	**7.2**	

Valuation analysis

- At an estimated €11.5 million in normalized 2022 EBITDA, the market values We.Connect at 5.6x EBITDA. (At 6/30, We.Connect has €34.3 million in net debt assuming operating cash at 5% of revenues. We adjust net debt downward by €10.9 million to reflect normalized working capital intensity of 22.5% of revenues, halfway between typical mid-year and year-end levels.
- We believe We.Connect shares deserve at least a market multiple and likely a good premium, but we are also cognizant of the dynamics around small, controlled companies in Europe. A chart showing We.Connect's value at various discounts is below.

	10x 2022 EBITDA	12x 2022 EBITDA	14X 2022 EBITDA
Enterprise Value	115.0	138.0	161.0
Size/Liquidity Discount	-25%	-22.5%	-20%
Regional Discount	-15%	-12.5%	-10%
Cumulative Discount	-40%	-35%	-30%
Adjusted Multiple	**6.0x 2022 EBITDA**	**7.8x 2022 EBITDA**	**9.8x 2022 EBITDA**
Equity Value	45.6	66.3	89.3
Value Per Share	**€ 16.73**	**€ 24.32**	**€ 32.76**
P/E Ratio	6.5x	9.5x	12.8x
Upside from Current Price	+11.5%	+62.1%	+118.4%

What's it worth?

In Alluvial's Opinion: We.Connect is worth a lot more than the current trading price! A firm with historical high single digit organic revenue growth and excellent returns on capital, plus a proven ability to add value through acquisitions, merits an above-market multiple of earnings and cash flows. The average 5-year EBITDA multiple for comparable distributors is around 11x trailing results. However, there are a few confounding factors:

- Size and illiquidity: In Alluvial's experience, the market typically applies a meaningful valuation discount to low-float, controlled companies with minimal trading liquidity. Despite the fact that We.Connect's management is capable and well-aligned, the controlled status does add a degree of risk.
- Domicile: We like to invest in Europe. Most other American investors do not. A European analogue of an American business will generally trade at a discount.

All things considered, we believe We.Connect shares have material upside. As shown on the previous page, shares could appreciate by 60% and still be valued at just 7.8x normalized 2022 EBITDA and 9.5x 2022 normalized earnings, a large discount to comparable companies. If We.Connect can return to mid/high single digit organic revenue growth in 2023 and future years, each of these multiples will compress rapidly. Additionally, we expect We.Connect to perform more accretive acquisitions and to establish more partnerships with manufacturers. For example, the company just announced an expanded agreement with Epson.

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What are the risks?

- **Management loses discipline with acquisitions**: A bad acquisition could depress profitability and distract management. However, management has historically demonstrated a keen ability to identify good acquisition targets. Additionally, management has significant personal wealth at stake and is disincentivized to empire-build or grow for the sake of growth.

- **Manufacturers end partnerships with We.Connect**: We.Connect's results would be harmed were it to lose its supplier partnerships. Despite this risk, We.Connect has been extremely successful in establishing these relationships and adds more each year. The company enjoys a good reputation with suppliers.

- **The 'Amazon' question**: The products that We.Connect sells are generally available from other suppliers including Amazon. The company must continually distinguish itself from Amazon and other mass online retailers. One method of differentiation is We.Connect's distributional moat. The company has more than 4,000 points of sale across France as well as partnerships with major retailers like as Cdiscount and Carrefour. We.Connect also provides additional services like custom-configured PCs.

- **China!**: We.Connect depends on its suppliers, largely in China, to deliver its products cheaply and efficiently. Supply chain issues and/or troubles with the Chinese economy could reduce We.Connect's ability to source product and harm its margins.

- **Market too small for We.Connect to maintain growth rate**: If We.Connect were to saturate its markets, its growth rate would decline. However, ResearchAndMarkets.com (2020) estimates the French IT hardware market at € 30.4 billion for 2020 and expects it to grow 4.9% a year to € 38.6 billion in 2026. At roughly € 255m in sales for 2022, We.Connect is still <1% of total French IT hardware spend. We.Connect is also expanding toward international markets such as Bahrain and Kuwait, increasing its potential market size.

- **Bad French economy**: Honestly, enough said.

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Concluding thoughts

- We.Connect is a high-quality company that is likely to grow earnings at superior rates for years to come. Management is well-aligned and the company enjoys competitive advantages thanks to its extensive partnerships and highly-developed distribution network.
- The company possesses numerous growth opportunities, balanced by some risks. We believe shareholders are more than adequately compensated for these risks. We.Connect's balance sheet strength via its large excess cash and securities holdings provide a degree of safety as well as optionality for further acquisitions.
- The trading price of We.Connect shares reflects the company's status: small, little-known, and likely suffering from the impression that recent profit and revenue growth are COVID-driven and will recede.
- We.Connect's tiny size, illiquid shares, and the difficulty of parsing its financial statements and releases (except for the Francophones among us) will lead many to conclude that shares of We.Connect are not for them, and quite rightly.
- But for the enterprising investor willing to look further afield, we sing the praises of a strategy based on buying high-quality, obscure companies at cheap valuations and simply *waiting*. This is a strategy that has served us and our clients well, and the patient investor may find a lot to like in We.Connect SA.

Thank you for your time!

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