

# DIAMOND HILL

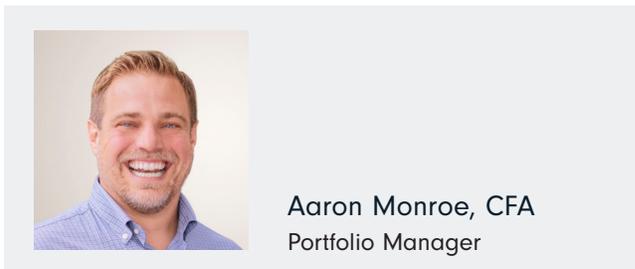
INVESTED IN THE LONG RUN

## Small Company Monthly Musings

# Never Let a Good Panic Go to Waste

May 2025

Over the past several years, investing in small businesses, the opportunity set within our investable universe, has generally been characterized by what we would define as pockets of value – always able to find somewhere to deploy capital at what we perceive as attractive return potential relative to the inherent business risk. However, we saw our opportunity set evolve rather quickly as early-April tariff announcements induced selling of equities board. At the recent bottom on April 8, we had approached a 30% decline from late November peaks in the broad small-cap universe (as approximated by the Russell 2000).



While these market panics are healthy, valid and driven by real risks, they also present the chance to optimize our portfolio. The adage goes that success begins when preparation meets opportunity. A broad selloff creates the opportunity – but are you prepared? When everything goes on sale, it gives us a chance to expedite the process of optimizing the portfolio by selling lower-conviction holdings to fund higher-conviction opportunities that are now equally attractive from a valuation perspective. In fourteen trading days, we added six new positions to the Small Cap Strategy. The opportunities came in various forms, but we can loosely group them into three buckets, which we examine below:

**Quality franchise fallers:** Sometimes panic-driven selloffs create a situation where a wish list company that has been too large for the small-cap strategy falls into our universe. Such was the case with Fortune Brands (FBIN), a company that designs and manufactures branded products for kitchens, bathrooms, outdoors and security. The stock had declined by nearly half since November, and at a \$6 billion market cap, finally reached a level that seemed reasonable to consider it a small business – allowing us to establish a position. It has a portfolio of leading brands with roughly two-thirds of the profits coming from the water innovation segment as the leader in consumer faucets (with recognizable brands such as Moen), as well as top brands in outdoor and security building products, with a substantial share in entry doors as well as locks and safes. While we know there will likely be some tariff turmoil, this is a durable business where we have confidence in their pricing power and operational abilities to navigate whatever lies ahead. At nearly 10% free cash flow yield, the price, capitalization and franchise durability are emblematic of the opportunities we were prepared to capitalize on during the April turmoil.

**Liquidity provider:** Another source of opportunity during periods of market stress can arise from being a liquidity provider for a less liquid company that we have had our eye on. We had two such situations in the early weeks of April, where we had done the work upfront and were biding our time for the right opportunity and price.

Strawberry Fields is a \$600 million market cap health care REIT primarily focused on skilled nursing facilities, which provide a high level of medical care and daily living assistance for patients needing ongoing support but not requiring hospitalization. While operating these facilities can have some industry nuances, the property owners themselves should have a fairly steady cash stream. On the morning of April 8, we awoke to over 170,000 shares on the tape – more than 3X a typical full day's volume – and the stock down over 20%. After verifying that there was no new information in play, we stepped in to acquire shares at a double-digit AFFO yield (adjusted funds from operations, the proxy for Free Cash Flow for REITs) and 5% plus dividend for steady properties with solid growth prospects.

Just a few days prior, a similar opportunity played out for \$250 million market cap Asure Software (ASUR), a growing provider of cloud-based human capital management (HCM) solutions primarily serving small and medium-sized businesses across the US. On April 4, the company printed 2X its average volume and crossed below \$9 – a steep discount to our estimate of intrinsic value. The company has attractive attributes, including robust recurring revenue, good client retention and excellent partnerships to drive growth. We also like the strong alignment with insiders who own approximately 8% of shares outstanding, combined with a solid balance sheet – a good opportunity to own a small, growing SaaS business at an attractive valuation.

**Waiting for the right pitch:** The last bucket of opportunities is typical of long-term intrinsic value-focused investors – interesting businesses we have been monitoring and would like to own at the right price. This includes \$1 billion hydraulic and electronic systems manufacturer Helios Technologies Inc. (HLIO), \$2 billion steel galvanizer and pre-coat metal specialist, AZZ Inc. (AZZ) and \$2 billion salty snack maker, UTZ Brands Inc. (UTZ). Like the small businesses mentioned above, we scour the universe, turning over rocks so that we are prepared to act when we get the opportunity.

The typical day-to-day as long-term investors often consists of reading, toiling and patiently waiting while our long-term thoughts play out. Very rarely does Mr. Market present the chance to truly optimize your portfolio in terms of expected return potential, business risk exposures and conviction. The recent selloff gave us the perfect setup to increase our conviction in our portfolio at attractive valuations. We must not let these panic-driven opportunities go to waste, as they tend to be fleeting in our environment of information abundance.

As of 30 April 2025, Diamond Hill Small Cap Strategy owned shares of Asure Software, Inc., AZZ, Inc., Fortune Brands Innovations, Inc., Helios Technologies, Inc., Strawberry Fields REIT, Inc. and UTZ Brands, Inc.

**Russell 2000 Index** measures the performance of roughly 2,000 US small-cap companies. The index is unmanaged, market capitalization weighted, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: London Stock Exchange Group PLC. See [diamond-hill.com/disclosures](http://diamond-hill.com/disclosures) for a full copy of the disclaimer.

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