

PEMBROKE ON THE ROAD

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Test-driving Stoneridge Inc.

Have you ever been driving on a highway next to an 18-wheeler? You are passing the truck at a responsible speed, and suddenly you realize the truck is edging over into your lane. You need to decide quickly whether to slow down or speed up to get out of harm's way. Doesn't the truck driver see you? The short answer is: "no".

This is a real problem, as deaths from crashes involving large trucks have been rising over the past several years. In 2016, 4,317 people were killed in the US, up 5.4% from 2015, according to the latest statistics from the National Highway Traffic Safety Administration.

Recently, two of Pembroke's portfolio managers spent a day in Detroit meeting with Stoneridge ("SRI"), a truck and auto parts supplier to learn more about the benefits of the company's recently launched camera technology.

Founded in 1965, Stoneridge is a global designer and manufacturer of highly-engineered components and systems for the commercial vehicle, automotive, off-highway and agricultural vehicle markets. The company's products are critical elements in the management of mechanical and electrical systems to improve overall vehicle performance, convenience, and monitoring in areas such as emissions control, fuel efficiency, safety, and security. While the company has many compelling growth drivers, their commercial vehicle camera system is particularly interesting.

Their new camera technology provides three critical benefits. The first and most important is improved safety for truck drivers



Portfolio Managers Andrew Garschagen (Left) & Matthew Beckerleg (Right)

and other drivers on the road. The cameras provide a real-time, clear view of any obstacle or vehicle located in what would normally be a significant blind spot. Second, the cameras allow the driver to manoeuvre the vehicle more effectively and efficiently when reversing or making tight turns.

Finally, the cameras eliminate the need for large, exterior side-view mirrors that produce a significant drag.

Truck drivers and OEMs are learning more about the camera offering which has significant technological strengths – the cameras are durable, have low latency, and work effectively in the day, night, or during inclement weather. According to the US Department of Transportation, there were over 2.5 million truck tractors (18 wheelers) in the US in 2016¹. That's to say nothing of the number of trucks on the road globally or other large commercial vehicles. We would also note that in the commercial vehicle market, customers tend to make long-term decisions on parts suppliers, as model upgrades and replacements are not as frequent as in consumer cars and trucks. The total addressable market for SRI's camera technology is therefore large and the customers that SRI wins could represent long-term revenue and profit opportunities.

From an investment standpoint, SRI meets Pembroke's criteria for quality, growth, and alignment. The company is well-capitalized and generates significant free cash flow which should support continued development of its commercial vehicle camera systems and other products.

Over the coming years, technology will continue to make driving safer. In addition to the camera technology from SRI, more vehicles will be supplied with blind spot warning, lane departure warning, forward collision warning and automatic emergency braking. Even with all of these positive changes, there will still be no substitute for staying alert, especially if you are next to a large truck.

¹US Department of Transportation, Office of Highway Policy Information, Highway Statistics, 2016, Truck and Truck Tractor Registrations, December 2017.



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