

Digging Deep into Leverage

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We're fortunate that we have experienced multiple periods of market volatility. We believe our long standing process of evaluating the balance sheets and growth prospects of our holdings has always been key to outperforming markets through the cycle.

At Weatherbie Capital, a wholly-owned subsidiary of Alger, we've always invested in what we believe are high quality smaller cap U.S. growth stocks. While we're willing to invest in companies that have some debt on the balance sheet, we seek to own companies that use debt as a tool and never as a crutch.

The recent market downturn is a great example of how the team digs deep into our companies from a balance sheet perspective. Now, it's relatively simple to identify the companies in our portfolio that carry debt, but it takes a lot more effort to understand which of those companies are more exposed in a downturn. In every case possible, we spoke to management, reviewed SEC filings and dug into our proprietary models to understand two primary issues from a balance sheet perspective:

First, we looked carefully at the nature of the debt on the balance sheet and how much is public debt. When does that debt come due, how much cash is on hand

and do they have the desire and the ability to draw down on a revolver that may be in place to further enhance liquidity?

Second, we analyzed how each business model could potentially be impacted by COVID-19 and stay-at-home mandates. Some of our companies may be helped by the situation. Other companies saw an immediate but very short-term impact on their business. And still others saw a limited impact initially, but growth prospects and competitive positioning could potentially change in the next three to five years. This deep analysis of each business model further enhanced our confidence in each company's ability to repay debt with free cash flow in the coming months and years.

Having carefully analyzed the nature of the debt and the business model of each of our companies, we gained fresh perspectives as portfolio managers on the balance sheet and outlook for each company owned in our portfolio. This deeper understanding then allowed us to do what we always strive to do in times of uncertainty: take steps to try to further upgrade what we believe is our already high-quality growth stock portfolio.



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