

High Quality Growth Opportunity in Micro Caps

Institutional investors often approach the Micro Cap universe with understandable caution, raising concerns about liquidity, volatility, funding durability, leverage, and overall risk. While these characteristics can be common when considering the Micro Cap universe in aggregate or when contrasting them to Large Caps, we believe they obscure a more compelling reality that there's a subset of high quality Micro Cap companies "hidden" within this overall universe. The Conestoga Micro Cap Growth strategy seeks to identify this subset of stocks by applying the same high quality, conservative growth investment discipline we're known for in our Small and SMid Cap strategies to the Micro Cap universe. Let's take a closer look at two of these dynamics.

One frequent misconception is that Micro Caps necessarily refer to exceptionally small companies, when in practice the universe is broader and more mature than many realize. As of June 30, 2025, the average company in the Russell Microcap Growth Index had a market cap of approximately \$900 million, with constituents reaching as high as \$3.6 billion¹. Within that context, Conestoga's Micro Cap Growth strategy sees superior investment characteristics in these companies that are materially larger than is commonly assumed for the category, while still benefiting from the inefficiencies and structural alpha potential of Micro Cap markets. In fact, our strategy carries a weighted average market cap of nearly \$1.5 billion, well above the \$900 million average of its benchmark.

Another frequent misconception about Micro Caps is that their perceived "low quality" makes them unworthy of resource allocation. At Conestoga Capital Advisors, one of the foundations of our investment process is a focus on companies with sustainable earnings growth and strong balance sheets that we can own across an entire economic cycle, and we see great opportunities to employ that discipline within Micro Cap stocks. As you can see below, our Micro Cap strategy exhibits fundamental portfolio characteristics that, as of June 30, 2025, are superior to its benchmark across multiple dimensions, including:

- Faster revenue and earnings growth
- Higher gross margins
- Higher returns on equity
- Significantly lower long-term debt-to-capital

In conclusion, we believe Micro Caps don't need to be synonymous with uncompensated risk. The Conestoga Micro Cap Growth strategy – with its quality-focused, conservative growth approach – uncovers companies that combine attractive secular growth prospects with strong financial profiles more consistent with Small or Mid Cap companies but within the Micro Cap universe, and a compelling risk/return profile.

Fundamental Characteristics

Portfolio Characteristics*	Conestoga Micro Cap Composite	Russell Microcap Growth Index
Weighted Avg. Market Cap	\$1,498.7 Million	\$875.8 Million
Revenue Growth (3 Yr. CAGR) Median	11.6%	10.9%
Earnings Growth (3-5 Yr. Est.)	7.2%	7.0%
Gross Margins (LTM) Median	48.0%	39.6%
Operating Margin (LTM) Median	3.2%	4.9%
Return on Equity (5 Yr. Median)	1.8%	-2.9%
LT Debt/Capital (Weighted Avg.)	16.9%	31.7%
Inside Ownership (Weighted Avg.)	15.6%	20.1%
Valuation – Harmonic Weighted Avg.		
NTM Price/Earnings (excl. negative)	23.8x	17.5x

¹Source: FTSE Russell, Russell Microcap Growth Index constituent data, as of June 30, 2025