LIMESTONE CAPITAL

# 2018-2019 ANNUAL REPORT

## Table of Contents

## Message from the 2018-2019 Executive Team

We have been extremely fortunate to serve as the Limestone Capital Executive Team this year, and can all agree that leading the club has been a highlight of our time at Queen's. Since joining Limestone, we have all benefited immensely from comprehensive technical training and continual guidance from a diverse set of alumni. As such, we have enjoyed the unique opportunity to give back to the club and expand Limestone's reach.

*Year-end Celebration*

We assumed our Executive positions following an unprecedented year of success, in which Limestone was awarded the Comsoc Committee of the Year for its efforts. Therefore, we knew that we would have to work very hard to continue the growth trajectory that Limestone has been on since its inception in 2011. This year, we have significantly expanded the reach and transparency of Limestone's work, begun the production and dissemination of industry reports, and made important changes to legitimize Limestone's investing function.

*Executive Team Headshot*

From a portfolio management standpoint, we are very pleased with the performance of both the USD and CAD portfolios, and commend our sector teams for once again researching and presenting a number of excellent companies that were ultimately purchased. We believe that we have successfully executed on Limestone's investment philosophy, and are confident that the companies that we currently hold will continue to outperform the market moving into the new fiscal year.

Finally, we want to thank you for reading Limestone Capital's first annual report. We planned this new initiative at the beginning of the year and are extremely excited to see it come to fruition. We believe that the annual report is an important step towards further legitimizing our investing platform and engaging with our alumni network in new ways. Our sector teams have worked hard to produce outstanding content throughout the year, and we believe that this report is a great way to showcase our work.

*Comsoc Appreciation Dinner*

Sincerely,

Cameron McWatt, Nathan Witteveen, and Jack Holmes

## Message from the Career Advancement Center (CAC)

The CAC has been delighted to support and partner with Limestone Capital on a number of different initiatives since their inception. Creating an inclusive environment for our students is a top priority for the CAC and Limestone embodies this with the open events that they host. Limestone's approach to peer mentoring, knowledge sharing, and alumni and corporate connections has greatly assisted in providing students with the tools they need to reach their career goals.

– Brennan Jones, Alison Braga, and Blair Robertson

## Message from the Limestone Capital Founders

We held our first meetings in Douglas library, and in the beginning, we were just a group of students with an idea. What started out as just as an idea quickly steamrolled into a movement, and what started out as a movement soon became a professional, passionate, and growing investment club.

Being a part of Limestone Capital's growth has been the most rewarding experience of my life. It's been an honour watching the tremendous growth of Limestone Capital and seeing the career success this club has helped empower. There were many pivotal moments, such as when our attendance was high enough that we finally required booking a classroom, or when we received our first investment banking internships, or when the investment club first began to place a steady stream of candidates into the U.S. as well as Canada, or when we received the Queen's Commerce Society Club of the Year award. Most importantly, however, I consider many of the members of Limestone Capital as my closest friends and business partners.

In addition, I strongly believe Limestone Capital's educational focus has been critical in helping more Queen's students excel in finance interviews, and I am happy that this culture of inclusiveness and collaboration has continued to thrive even as getting into the investment club has become more competitive. I am excited to see what Limestone Capital can accomplish next.

– Joshua Jia, Queen's Commerce 2014

## Message from the Incoming Executive Team

We are extremely honoured to have the opportunity to lead Limestone Capital for the upcoming year. Limestone has been integral not only in our professional development through it's helpful and extensive alumni network, education, and internal resources but also in our personal development as we have each been able to gain lifelong mentors and foster deep friendships – including with each other. Before each year begins, the succeeding Limestone executive team sets out to achieve a certain and unique goal during their tenure. Our leadership style will be no different, and our main goal is quite simple yet important: we aim to strengthen the club's relationship with alumni and professional firms. We are confident that with a strong alumni base and executive team behind us, we will be able to meet our goal – like our predecessors – and push the boundaries of what a student-run club can achieve yet again.

– Shahmeer Ahmad, Taylor Durand, and Simran Dass

# Overview of Limestone Capital

## About Limestone Capital

### Overview

Limestone Capital is a student-run investment club founded in 2011 at Queen's University in Kingston, Ontario. Limestone currently has 35 members that manage two long-only equity portfolios focused on small- to medium-cap U.S. and Canadian securities.

### Our Mission

Limestone's mission is to execute on its three pillars of Education, Exposure, and Inclusiveness. In doing so, Limestone aims to provide students across all faculties with education on real-life financial management, exposure to the finance industry, and inclusiveness of the broader community. For its efforts in executing on these pillars, Limestone was awarded the Queen's Commerce Society 'Club of the Year' for 2017-2018 and was nominated for the same award for 2018-2019.

### Structure

Limestone is led by an executive team of the Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Strategy Officer (CSO). The investment team is divided across six sector teams: Consumers, Financial Institutions, Industrials, Natural Resources, Real Estate, and TMT. Each sector team is comprised of Analysts (Class of 2021), Portfolio Managers (Class of 2020), and Senior Portfolio Managers (Class of 2019). Additionally, Limestone has three Junior Analysts (Class of 2022) that rotate across all six sector groups.


*Limestone Capital Investment Team 2018-2019 pictured in October, 2018*

## About Limestone Capital

### Our Work

Each sector team is responsible for producing four stock pitches over the course of the year. Sector teams use fundamental analysis techniques widely used in the industry to identify undervalued securities. Pitches are presented at Limestone's weekly meetings, after which an investment decision is made by the executive team in collaboration with the sector team. To augment these stock pitches, each sector team is also responsible for producing four industry reports, which contain in-depth coverage of a specific industry within its coverage universe. These reports, which were added in 2018-2019, have to-date covered niche sectors such as golf, cybersecurity, self-storage, and auto parts manufacturing.

### External Relations

Beyond managing its portfolios, Limestone aims to engage with the broader student community to provide finance education and industry exposure. This past year, Limestone once again hosted a series of four Investment Banking Prep Sessions which covered topics such as Accounting, Comparables Analysis, Discounted Cash Flow Models, Leveraged Buyouts, and Mergers & Acquisitions. Additionally, Limestone hosted a U.S. Finance Recruiting Panel with four fourth-year students that have completed investment banking internships in the United States at firms including Goldman Sachs, J.P. Morgan, and Moelis & Company. In the past, Limestone has also hosted external events such as a Buy-side Recruiting Workshop with Vlaad and Company and a Women in Capital Markets Event with CIBC World Markets. Finally, all of Limestone Capital's stock pitches and reports are shared with the student community through its website, Facebook, and LinkedIn. This move has vastly expanded Limestone's reach and offers complete transparency to the work that is produced by the club. All of Limestone Capital's work from the past year can be accessed at http://limestone.comsoc.ca.

*In January 2019, a number of senior members of Limestone Capital attended Fidelity Canada's 'A Class by Themselves' conference in Toronto*

*In January 2019, Limestone Capital hosted its 'U.S. Finance Recruiting Panel' with panelists from Goldman Sachs, J.P. Morgan, Moelis and Company, and RBC*

## Limestone Capital Investment Team 2018-2019

**CIO**

Nathan Witteveen

**CEO**

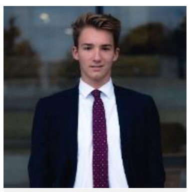
Cameron McWatt

**CSO**

Jack Holmes

**Real Estate**

Claire Strickland



Connor Roth

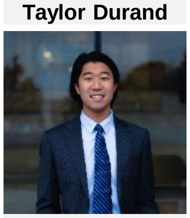
Saajan Hopton

**TMT**

Shawn Kang

Jess Galli

Taylor Durand



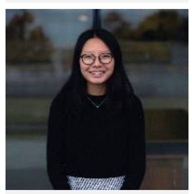
Edward Huang

Dylan Rupnow

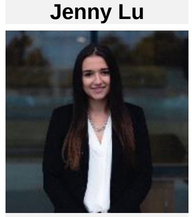
**Industrials**

Ben Sisokin

Noah Blaff



Jenny Lu



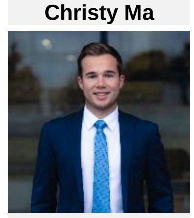
Marta Kraguljac

Aaron Sheth

**NR**

Matt Vandepol

Christy Ma



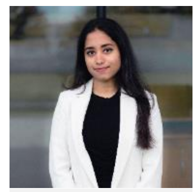
James Quinn

Sasha Twardowski

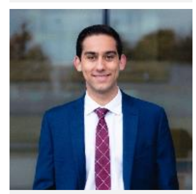
Ceci Deng

**Financials**

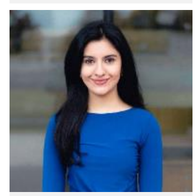
Rayan Soni



Simran Dass



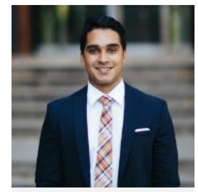
Shant Mardikian



Simone Aria

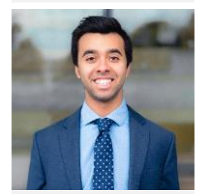
Manoj Anandan

**Consumers**

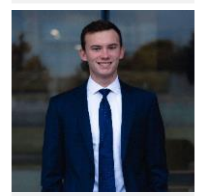


Mikhial Hudda

Trevor Corner

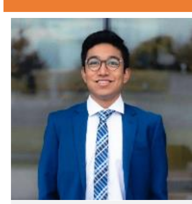


Shahmeer Ahmad

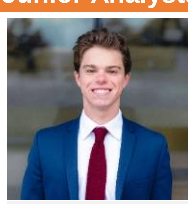


Kyle Johnston

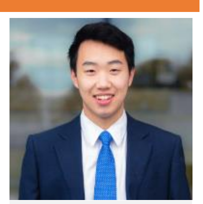
**Junior Analysts**



Wasiq Wadud

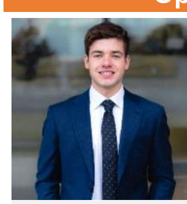


Michael Donovan



Shu Lei Wu

**Operations**



Alex Labelle

Emily Xu

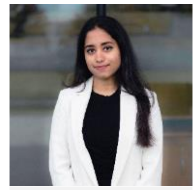
## Limestone Capital Investment Team 2019-2020

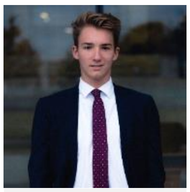
### CIO

Taylor Durand

### CEO

Shahmeer Ahmad

### CSO

Simran Dass

### Real Estate

Connor Roth

Saajan Hopton

Michael Donovan

James Maycher

### TMT

Noah Blaff

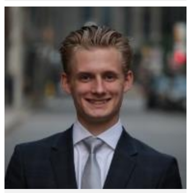
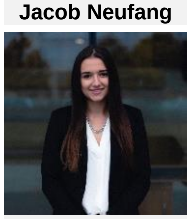
Edward Huang

Dylan Rupnow

Shu Lei Wu

Alice Qi

### Industrials

Jenny Lu

Jacob Neufang

Marta Kraguljac

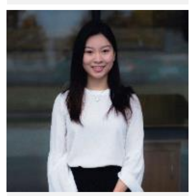
Aaron Sheth

Helen Wong

### NR

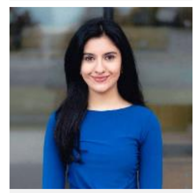
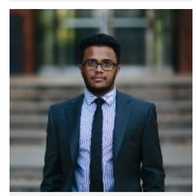
James Quinn

Meera Jagota

Sasha Twardowski

Ceci Deng

Adam McWatt

### Financials

Shant Mardikian

Simone Aria

Manoj Anandan

Wasiq Wadud

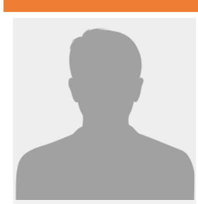
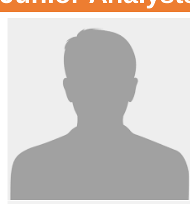
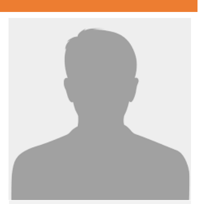
### Consumers

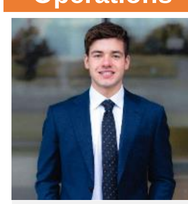
Tyler Chiu

Kyle Johnston

Isabella Farag

Dean Ponce

### Junior Analysts

Fall 2019

Fall 2019

Fall 2019

### Operations

Alex Labelle

## History of Limestone Capital

**2011**

- Limestone Capital is founded by 9 students, including Joshua Jia, Riley Milavsky, and Alex Banh
- Limestone Capital's first fund is launched, with AUM of ~$10,000

**2012**

- Limestone achieves its first 'Bulge Bracket' investment banking placement, at Barclays in Toronto
- Limestone Capital is rebranded to the logo currently in use

**2013**

- Limestone hosts its first Summer Training in Toronto for new hires
- Limestone achieves its first international placement, at RBC Capital Markets in New York City

**2014**

- Two Limestone members receive the club's first placements in London
- The first Limestone member is awarded the RBC Capital Markets Scholarship for Women

**2015**

- The Limestone Capital fund reaches a peak AUM of ~$50,000
- Limestone hosts its first Investment Banking Prep Sessions. This event has occurred annually since

**2016**

- Limestone hosts its first 'Intro to Buy Side Recruiting' event in partnership with Vlaad and Company
- Limestone is ratified under comsoc and transitions to a fully virtual fund

**2017**

- 70% of the Limestone classes of 2018 and 2019 receive investment banking offers in the United States
- A Limestone member is awarded the RBC Capital Markets Scholarship for the third consecutive year
- Limestone hosts its first U.S. Finance Recruiting Panel
- Limestone is awarded the Queen's Commerce Society 'Club of the Year

**2018**

- Limestone achieves its first 'Megafund' private equity placement
- A Limestone member receives the club's first placement in Hong Kong
- Limestone begins producing and distributing industry reports

**2019**

- Limestone Capital is nominated for ComSoc 'Club of the Year' for the second consecutive year
- Limestone Capital publishes its first Annual Report for 2018-2019

## Limestone Recruiting Success

### Class of 2019

| | | | | |
|---|---|---|---|---|
| **Ben Sisokin**<br>Investment Mgmt.<br>Toronto | **Cameron McWatt**<br>Investment Banking<br>New York City | **Christy Ma**<br>Investment Banking<br>New York City | **Claire Strickland**<br>Investment Banking<br>New York City | **Jack Holmes**<br>Investment Banking<br>New York City |
| **Jess Galli**<br>Investment Banking<br>New York City | **Matt Vandepol**<br>Investment Banking<br>Toronto | **Nathan Witteveen**<br>Investment Banking<br>New York City | **Rayan Soni**<br>Investment Banking<br>New York City | **Shawn Kang**<br>Investment Banking<br>San Francisco |

### Class of 2020

| | | | | |
|---|---|---|---|---|
| **Connor Roth**<br>Investments<br>Toronto | **Emily Xu**<br>Portfolio Mgmt.<br>Toronto | **Jacob Neufang**<br>Investment Banking<br>Toronto | **James Quinn**<br>Technology<br>Toronto | **Jenny Lu**<br>Investment Banking<br>Toronto |
| **Meera Jagota**<br>Sales & Trading<br>New York City | **Noah Blaff**<br>Investment Banking<br>Toronto | **Shahmeer Ahmad**<br>Investment Banking<br>San Francisco | **Shahmeer Ahmad**<br>Strategy<br>Palo Alto | **Shant Mardikian**<br>Investment Banking<br>Toronto |
| **Simran Dass**<br>Private Equity<br>Toronto | **Taylor Durand**<br>Investment Banking<br>New York City | **Tyler Chiu**<br>Investment Banking<br>Toronto | | |

### Class of 2021/ 2022

| | | | | |
|---|---|---|---|---|
| **Aaron Sheth**<br>Private Equity<br>Toronto | **Ceci Deng**<br>Growth Equity<br>Vancouver | **Dylan Rupnow**<br>Investment Banking<br>Toronto | **Edward Huang**<br>Research<br>Toronto | **Isabella Farag**<br>Investment Banking<br>Toronto |
| **Kyle Johnston**<br>Private Equity<br>Toronto | **Manoj Anandan***<br>Investment Banking<br>New York City | **Manoj Anandan**<br>Investment Mgmt.<br>Toronto | **Marta Kraguljac**<br>Investment Banking<br>Toronto | **Michael Donovan**<br>Corporate Finance<br>Toronto |
| **Saajan Hopton**<br>Investment Banking<br>Toronto | **Sasha Twardowski**<br>Investment Banking<br>Toronto | **Simone Aria***<br>Investment Banking<br>New York City | **Simone Aria**<br>Investment Banking<br>Toronto | |

* Denotes placements for the summer of 2020

## Alumni Relations and Mentorship

Since Limestone's first graduating class in 2011, the alumni network has played an integral role in the club's education and development. Limestone is extremely fortunate to have a strong and growing network of accomplished, involved, and supportive alumni. Limestone's alumni network spans a broad range of professional industries, including investment banking, private equity, asset management, management consulting, technology, and entrepreneurship. Additionally, Limestone's alumni network has a wide international reach, including cities such as Toronto, New York, San Francisco, London, and Hong Kong.

Limestone primarily engages with the alumni network through its mentorship program. Under this program, each Limestone member is paired with one to three alumni who serve as a mentor over the course of that year. Mentors play an active role in their mentee's recruiting by offering career advice, assisting with technical concepts, providing mock interviews, and making connections to other industry professionals. Mentor pairings are typically selected based on sector and industry interests, and Limestone members can expect to be paired with mentors of varying levels of experience. As the alumni network continues to grow in size and reach, the mentorship program will expand to become more involved and robust. Limestone is continually looking for new ways to involve its alumni network, and the incoming executive has planned a number of new initiatives on this front.

Additionally, every April Limestone hosts a training weekend in Toronto for all new hires and returning members, where they learn fundamental valuation techniques widely used in the industry. Limestone's alumni play an active role in executing this weekend by teaching various sessions and sharing their experiences in the industry. Additionally, a core component of this training weekend is Limestone's annual Analyst Stock Pitch Competition, where each sector team is responsible for producing an investment pitch to be presented to a panel of investment banking professionals. In 2017, Limestone hosted its Analyst Stock Pitch Competition at Credit Suisse in Toronto with the help of alumni Hank Xu (Queen's Commerce, 2015). In 2018, Limestone hosted its Analyst Stock Pitch Competition at BMO Capital Markets in Toronto with the help of alumni Michael Karp (Queen's Commerce, 2015) and William Lay (Queen's Commerce, 2016). This year, Limestone is excited to once again host this competition at BMO Capital Markets.

## Limestone Alumni Current Positions

Goldman Sachs
Morgan Stanley
Credit Suisse
RBC Capital Markets
Evercore
Moelis
J.P.Morgan
Clairvest
Alignvest Management Corporation
McKinsey & Company
BCG Boston Consulting Group
Bain & Company
Burgundy Asset Management Ltd.
wework
Microsoft
Dropbox

## Alumni Testimonials

**Michael Karp**

ALIGNVEST MANAGEMENT CORPORATION

"Coming from someone who started university not knowing where he wanted to take his career, Limestone played an instrumental role in helping me determine finance was what I wanted to do. The club's learning platform, access to mentors and friendly environment have been invaluable to my progression as a young professional.

**Alex Banh**

FULCRUM TECHNOLOGY HOLDINGS

"We founded Limestone on the pillars of inclusivity, education, and exposing students to careers in finance. In the last nine years, this group has exceeded my wildest expectations while living by our core values. You won't find a tighter-knit group of students on campus who support and celebrate each others' success.

**Ben Liu**

MOELIS

"Limestone has been an absolutely invaluable experience during my time at Queen's. The educational resources, the team atmosphere, and most importantly its very talented people have contributed immensely to both my personal and professional development. It's very exciting to stay involved even now as an alumni, and to see the club grow so quickly.

**Kanak Nagee**

EVERCORE

"Joining Limestone was one of the best decisions I made while at Queen's. Throughout my time on the club, I had the privilege of learning from incredibly sharp students who took a very serious interest in my personal and professional development. That attitude has been at the core of the club's culture and is the reason why I have found Limestone members to be amazing teachers and mentors.

**Michael Milazzo**

Morgan Stanley

"Limestone is the organization at Queen's that was most critical to my professional development. The people at Limestone are what truly set this organization apart from the others. There is a meticulous devotion towards education and mentorship that allows its members to succeed in their chosen careers. The people you meet on Limestone become friends and mentors that stay with you beyond graduation.

**Iain McKenzie**

BCG BOSTON CONSULTING GROUP

"Limestone Capital was one of my most important experiences at Queen's. The club gave purpose beyond predictable class lectures, and prepared me at a professional level for management consulting - both in technical analysis and delivering a convincing pitch. Most importantly, the focus on mentorship and collaboration formed friendships that have continued well beyond graduation.

## Alumni Testimonials

**Sarah Fadel**

"Limestone was hands-down the most formative part of my Queen's experience, both on a professional and personal basis. I met lifelong mentors and friends, who were crucial to my development. These people, along with the current roster of incredibly talented kids on the club, continue to inspire me everyday.

**Joanna Moroz**

"The network that I was able to build through Limestone is truly unparalleled from both a personal and professional perspective. Limestone provided me the opportunity to learn from countless brilliant individuals, several of whom I consider to be my closest friends. By leveraging this network, I was well-equipped to achieve my goal of beginning my career in Investment Banking.

**Karan Khanna**

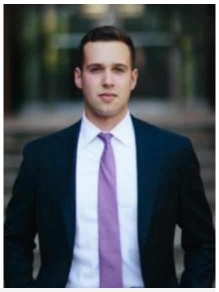
"My time with Limestone Capital was a formative experience that was instrumental in setting me up for the first few years of my career. The network of upper-years and alumni helped prepare me for the grueling investment banking recruiting process as well as opened doors to opportunities beyond the school's job board (and continues to do so).

**Ethan Vera**

"Limestone was without a doubt the most transformative experience for me during my time at Queen's. The strong training program coupled with an environment full of supportive and ambitious individuals helped push my personal development far past typical university learning. In addition, I made friendships with Limestone members that will long survive graduation.

**Riley Webb**

"Limestone is a great opportunity for students interested in finance to prepare for a career outside of the classroom. Limestone provides students with the opportunity to:
i) learn from knowledgeable peers in an inclusive team environment
ii) expand their network, and
iii) apply class learnings in a tangible manner.



**Elly Rosenbaum & Alex Sigel**

"We were both on Limestone for a majority of our undergrad at Queen's. Looking back, it's clear to us that Limestone is the only club at Smith that will holistically prepare you for life after University. Through the 'drop everything' culture and focus on education, Limestone taught us the hard skills to prepare for investment banking, and the soft skills to understand the value of collaboration and teaching.

# Investing and Portfolio Management

## Limestone's Investment Philosophy

### Deep Value Investing

Given Limestone Capital's limited resources, we believe that the only way to outperform our benchmark indices is by being concentrated and different. As such, we have adopted a model of deep value investing, in which we focus on a limited number of high-conviction ideas. The key tenets of deep value investing are:

1. **Concentration**: We only invest in our best ideas. As evidence, only 32% of Limestone Capital's stock pitches were ultimately purchased during the 2018-2019 fiscal year
2. **Due diligence:** Before making an investment decision, we perform extensive due diligence to ensure that we fully understand the company and its industry
3. **High return confidence:** We only invest in stocks that have significant potential upside along with adequate downside protection

### Investing in great companies

Under the tenants of deep value investing, we aim to invest in excellent companies that we would be comfortable holding in the portfolio over a long-term horizon. We believe that an exceptional company exhibits many or all of the following investment criteria:

1. Strong management track record and credibility
2. Alignment of management incentives through compensation and/or insider ownership
3. Consistent and above-average return on invested capital
4. Unique business model or economic moat: product niches, brand loyalty, monopolies, network effects, cost advantages, intellectual property, switching costs, or economies of scale
5. Low incremental capex or reinvestment requirements resulting in high free cash flow conversion
6. Stable, recurring, and predictable revenue and cash flows
7. Low cyclicality, low commodity risk, or high defensibility
8. Opportunities for growth which exceeds investors' expectations
9. Attractive valuation and resulting margin of safety which provides asymmetric upside; downside protection with opportunities for significant outperformance
10. Clear, compelling, and actionable corporate strategy

### Key questions for investment

1. Why is this company going to perform better than its peers?
2. If this company is undervalued, why have professional money managers not realized it?
3. Are there any macro-economic or industry-specific risks that could threaten this company?
4. Even if this company is trading at a discount, is the discount long-term and justified?
5. Are we comfortable holding this company for the foreseeable future?

## Limestone Portfolio Construction and Investment Process

### Portfolio Overview

| |
|---|
| **Construction**: Equal allocation across the USD and CAD portfolios |
| **Time horizon**: Minimum one-year target holding period |
| **Number of holdings**: 10-12 companies in each portfolio |
| **Company size**: Small and medium cap companies ($500mm – $10bn) |
| **USD portfolio benchmark**: Russell 2000 |
| **CAD portfolio benchmark**: S&P/TSX Completion |
| **Fiscal Year End:** March 31 |

### Our Investment Process

Each sector team pitches two companies per semester, resulting in 24 total pitches over the course of the year. Our investment process begins with an anonymous buy/hold/sell poll across the entire investment team following each stock pitch. The executive team considers this input along with Limestone's investment criteria to make an initial investment decision.

### Portfolio Oversight

Regardless of the initial investment decision, all companies are added to a watchlist where they are closely monitored for price changes that may change our position. Once a company is added to one of Limestone's portfolios, the executive team works closely with the respective sector teams to monitor movements in the stock price and continually reassess our position. We frequently adjust our valuation models and analyze quarterly earnings to revise the target prices for our holdings. We aim to be disciplined in exiting our positions when the target price is reached, and we often add to our positions in the event of an unjustified sell-off. This approach of continual oversight also allows us to make informed decisions related to rebalancing the portfolios when necessary.

### Small to Medium Capitalization Focus

We focus on small and medium-sized companies with market capitalizations between $500 million and $10 billion. Because these companies are far less-covered by equity research analysts, we believe that this space presents greater opportunity to identify market mispricing and generate outsized returns. Additionally, we believe that focusing on smaller companies allows our members to better develop unique and contrarian investment theses based on primary research.

### Investing in What We Understand

We understand that as students, we do not have the time or resources necessary to fully research and understand complicated or specialized business models or industries. Investing in these areas would place us at an immediate informational disadvantage to professional investors with more time and resources available to them. As such, we focus on investing in businesses and industries that our sector teams intimately understand, and view this as a prerequisite for generating intelligent investment theses.

## Investment Performance Review

### Market Performance

Following an incredibly strong year in 2017, market performance during 2018 was relatively underwhelming. The all-in return of the S&P 500 was negative for the first time since 2008, a sign of waning investor confidence amid global political uncertainty and sky-high market valuations. While the S&P 500 rallied 12.9% from January to March 2019 as valuations recovered, EV/EBITDA multiples remain below early 2018 highs.

Initial performance during 2018 was strong once again following the passage of U.S. tax reform and an increase in oil prices, leading the S&P 500 to an 8% return through Q3 2018. Corporate earnings in the U.S. were strengthened as the U.S. corporate tax rate fell from 35% to 21%, prompting a subsequent increase in stock buybacks and M&A activity. Unfortunately for most U.S. investors, these conditions were followed by the most significant market correction since 2008.

From October 1st until Christmas Eve, U.S. stocks lost 19.6% of their value in a rapid deterioration in market conditions which left investors with significant losses. This was purely a correction in valuations, as the average EV/EBITDA multiple of the S&P 500 fell 21% while underlying fundamentals strengthened slightly. One significant driver of recent market performance has been the possibility of an impending U.S. recession. Based on a survey of American economists, CNBC estimates the probability of a U.S. recession to be 26%, the highest estimate since January 2016. Furthermore, during late March 2019 the yield curve inverted as the U.S. 10-year yield fell below the 3-month yield for the first time since 2008, sparking further investor concerns of an impending recession. Lastly, continued trade tensions with China have led to weaker outlooks for many Consumer and Industrial companies as their China-based supply chains are disrupted.

While many investors simply assess the performance of the S&P 500, 2018 did not treat all stocks equally. In fact, the median company underperformed by the overall index by 3.5%, illustrating the extent to which recent market returns have largely been driven by a concentrated number of technology stocks. Furthermore, the Russell 2000 (Limestone Capital's USD Benchmark) returned -13% during 2018 and is still trading lower than its January 2018 position.

### Limestone Investment Performance

Limestone's investment performance during the 2019 fiscal year was incredibly strong. The USD portfolio returned 9.1% while the Russell 2000 returned 2.0%, implying market outperformance of 7.1%. Based on the Beta of the USD portfolio, the fund achieved an Alpha of 6.8%, indicating an outstanding year for the fund. This strong performance can be attributed to consistent outperformance across all holdings and disciplined sell decisions when holdings were deemed to be overvalued.

The CAD portfolio returned 1.5%, implying market outperformance of -4.5%. Based on the Beta of the portfolio, Alpha for the 2019 fiscal year was -2.0%. This performance can largely be attributed to the defensive positioning of the fund, a significant cash drag as the fund is yet to be fully invested, and adverse performance in two individual stocks which had an outsized impact on the portfolio. During the 2020 fiscal year, Limestone Capital looks forward to fully deploying both portfolios and continuing to achieve its goal of outperforming the market.

## Fund Performance Analysis

| Portfolio Analytics | |
|---|---|
| **Portfolio Name** | **USD** |
| Portfolio Value (Start) | 101,527 |
| Portfolio Value (End) | 110,782 |
| **Portfolio Return** | **9.1%** |
| | |
| **Benchmark Name** | **Russell 2000** |
| Benchmark Value (Start) | 7,548 |
| Benchmark Value (End) | 7,703 |
| **Benchmark Return** | **2.0%** |
| | |
| **Outperformance** | **7.1%** |
| Portfolio Beta | 0.34 |
| Riskfree Rate | 2.4% |
| **Jensen's Alpha** | **6.8%** |
| | |
| **Tracking Error** | **14.1%** |
| **Information Ratio** | **0.50** |

| Portfolio Analytics | |
|---|---|
| **Portfolio Name** | **CAD** |
| Portfolio Value (Start) | 99,347 |
| Portfolio Value (End) | 100,826 |
| **Portfolio Return** | **1.5%** |
| | |
| **Benchmark Name** | **S&P Completion** |
| Benchmark Value (Start) | 1,541 |
| Benchmark Value (End) | 1,632 |
| **Benchmark Return** | **6.0%** |
| | |
| **Outperformance** | **(4.5%)** |
| Portfolio Beta | 0.38 |
| Riskfree Rate | 2.0% |
| **Jensen's Alpha** | **(2.0%)** |
| | |
| **Tracking Error** | **10.2%** |
| **Information Ratio** | **(0.44)** |

## Fund Holdings Analysis

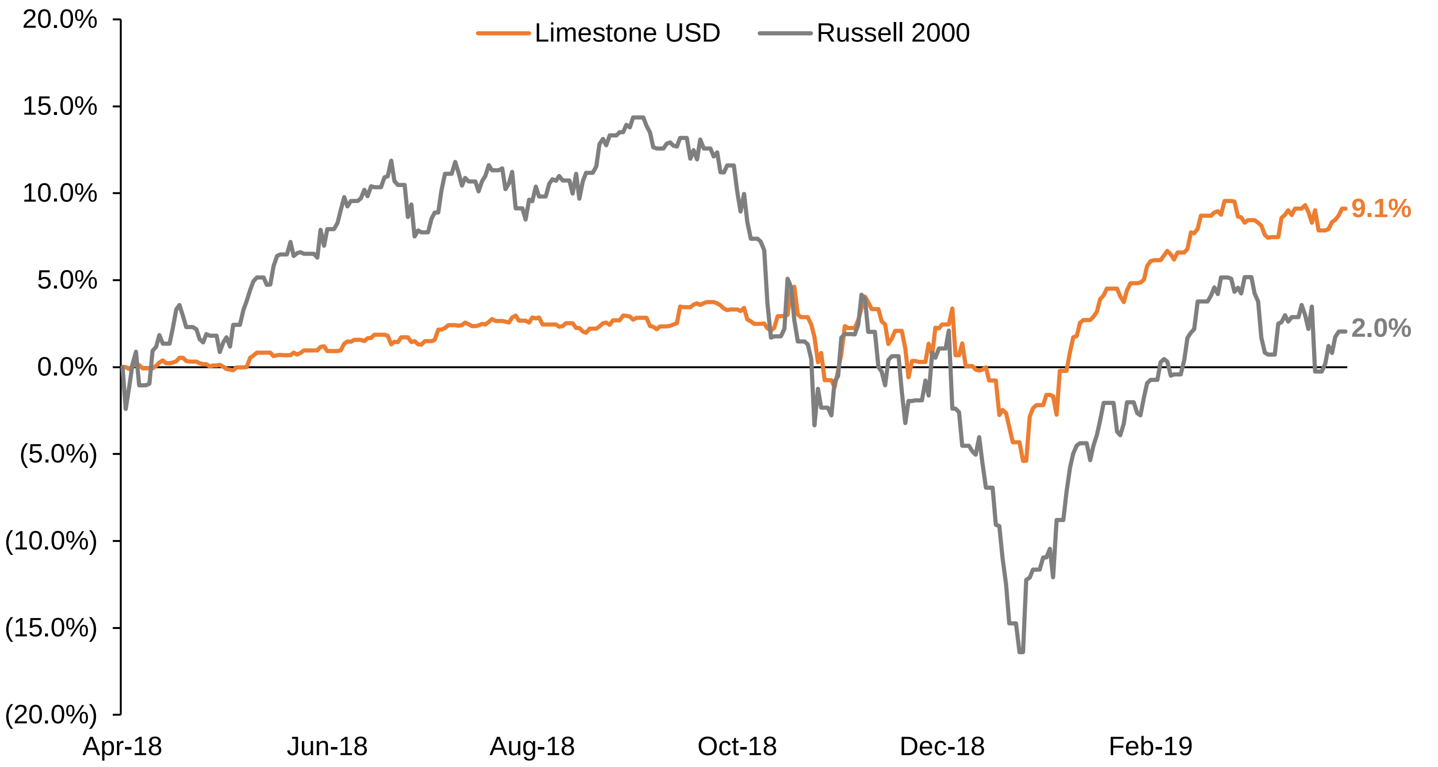
**USD Portfolio**

| Name | Ticker | Sector | Weight |
|---|---|---|---|
| Acuity Brands | AYI | IND | 4.9% |
| Preferred Apartments | APTS | RE | 1.6% |
| Pattern Energy | PEGI | NR | 6.0% |
| Winnebago | WGO | CR | 7.2% |
| QTS | QTS | RE | 10.2% |
| II-VI | IIVI | TMT | 5.0% |
| S&P 500 ETF | IVV | Cash | 27.7% |
| Cash | - | Cash | 37.5% |

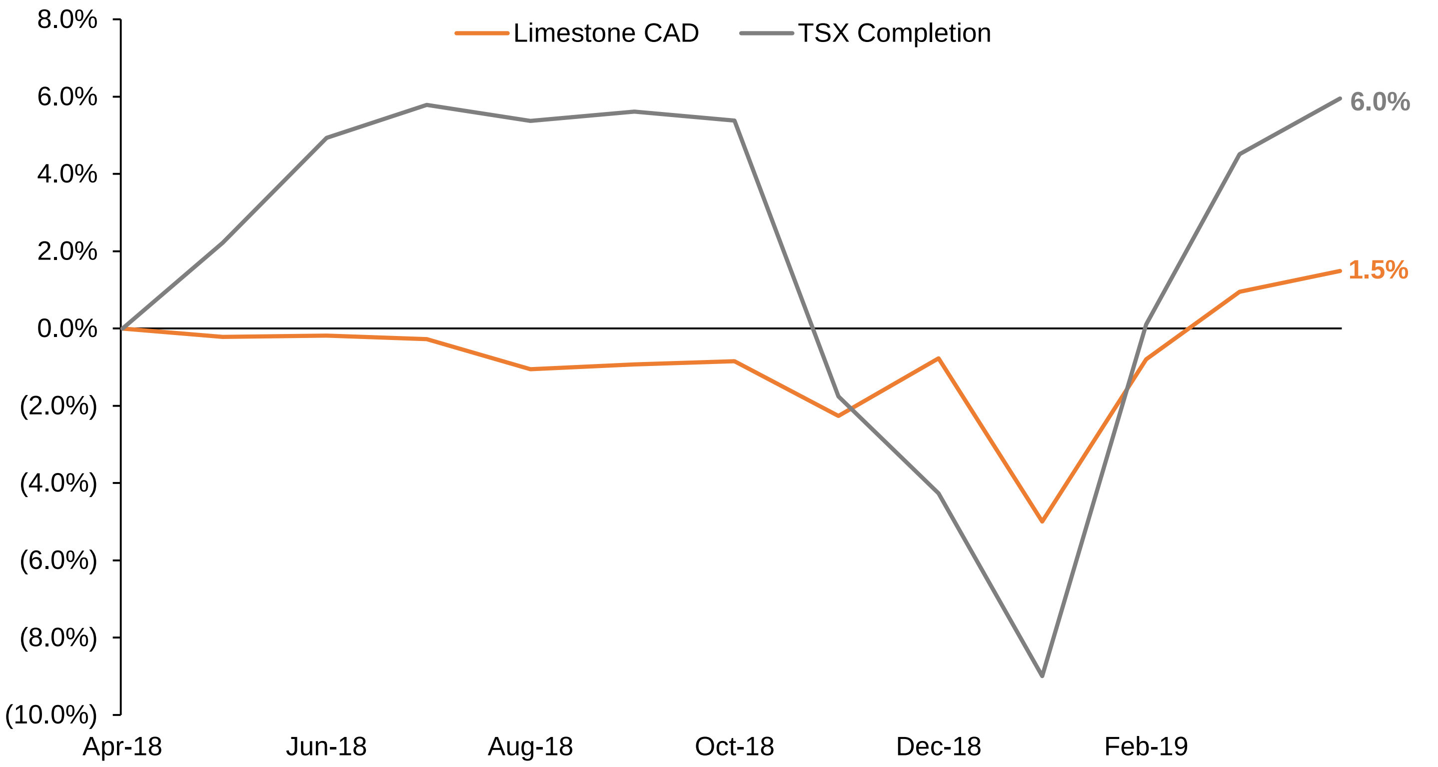
**CAD Portfolio**

| Name | Ticker | Sector | Weight |
|---|---|---|---|
| Nemaska | NMX | NR | 0.9% |
| Dream Industrial | DIR | RE | 6.2% |
| Sleep Country | ZZZ | CR | 5.8% |
| Brookfield | BBU | FIG | 6.7% |
| Algonquin | AQN | NR | 4.1% |
| S&P/TSX ETF | ZCN | Cash | 41.6% |
| Cash | - | Cash | 34.8% |

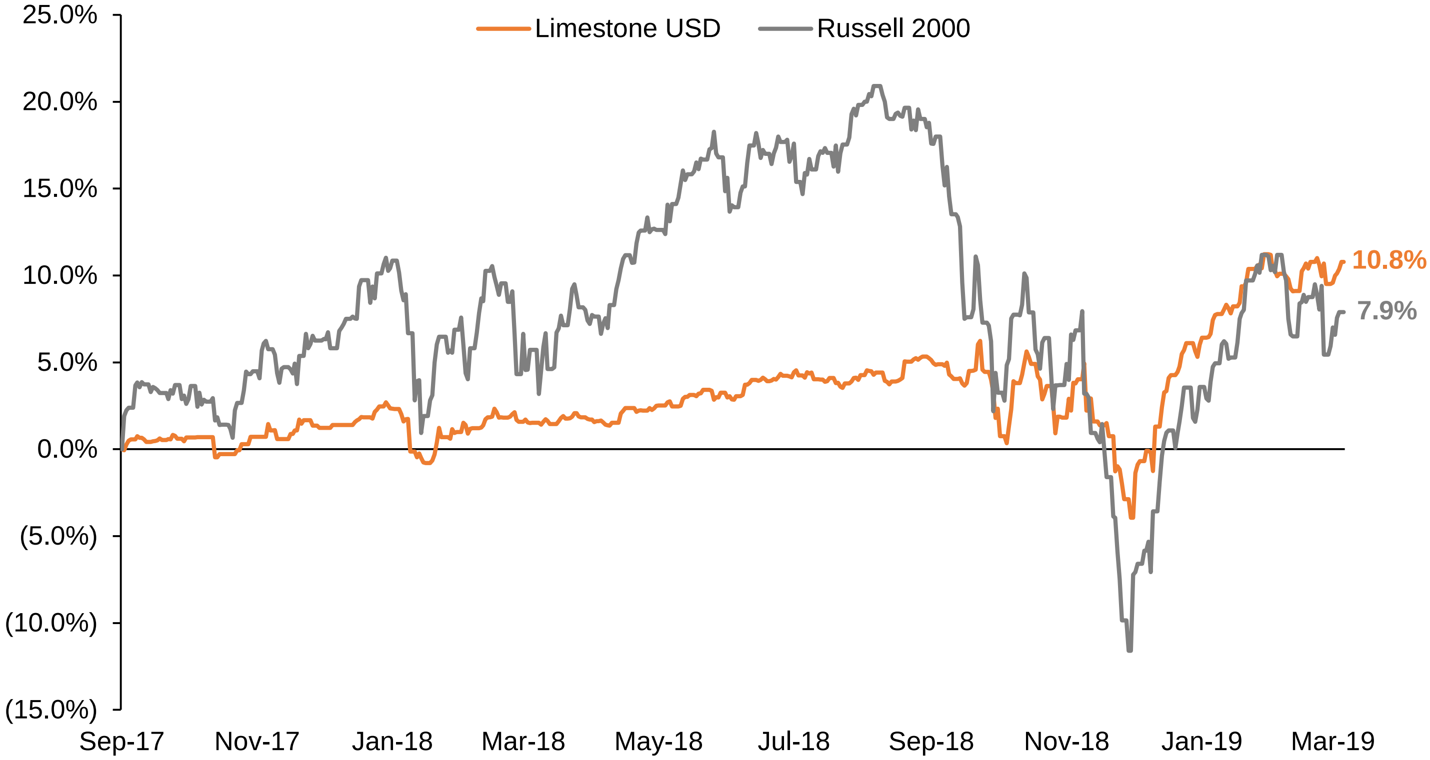
## USD Fund Performance – Fiscal Year Ended March 31, 2019



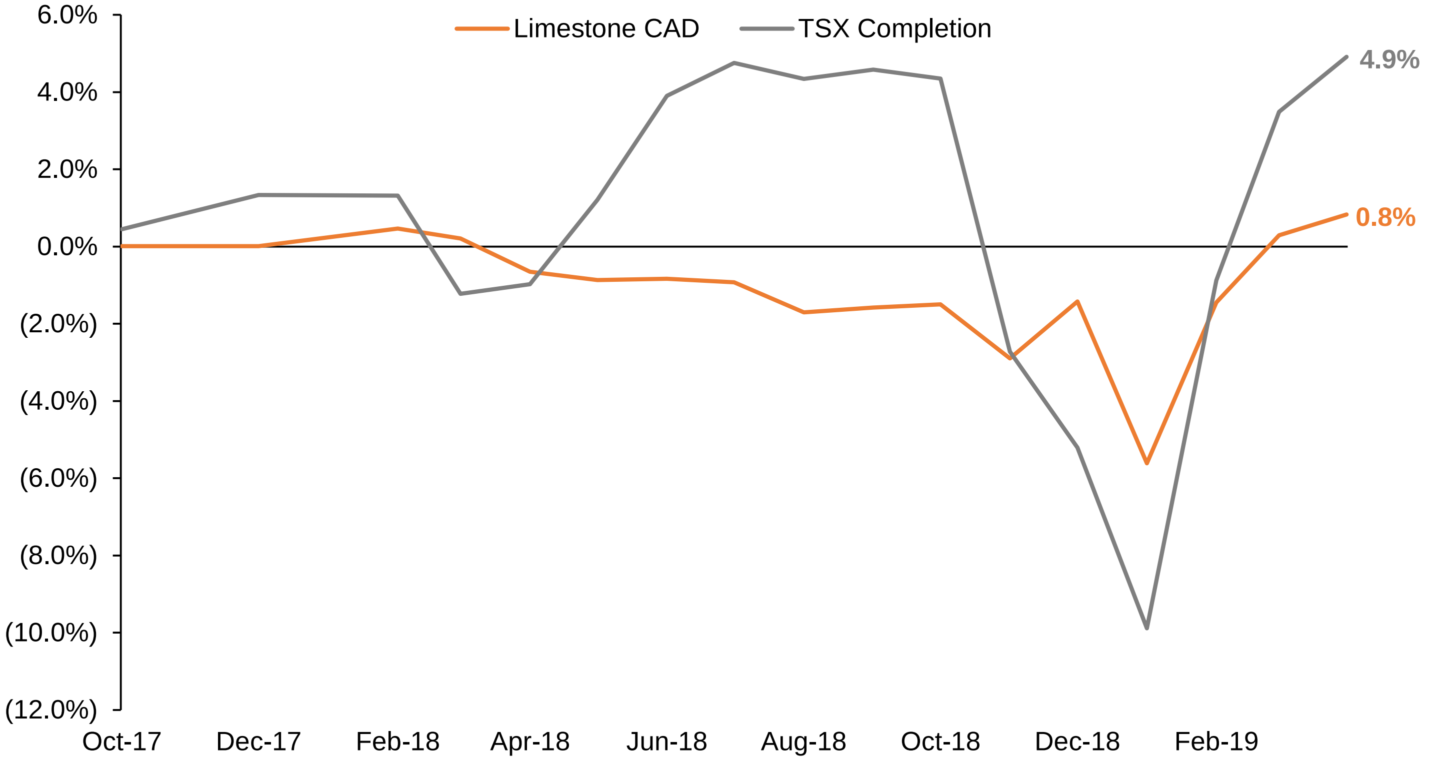

## CAD Fund Performance – Fiscal Year Ended March 31, 2019



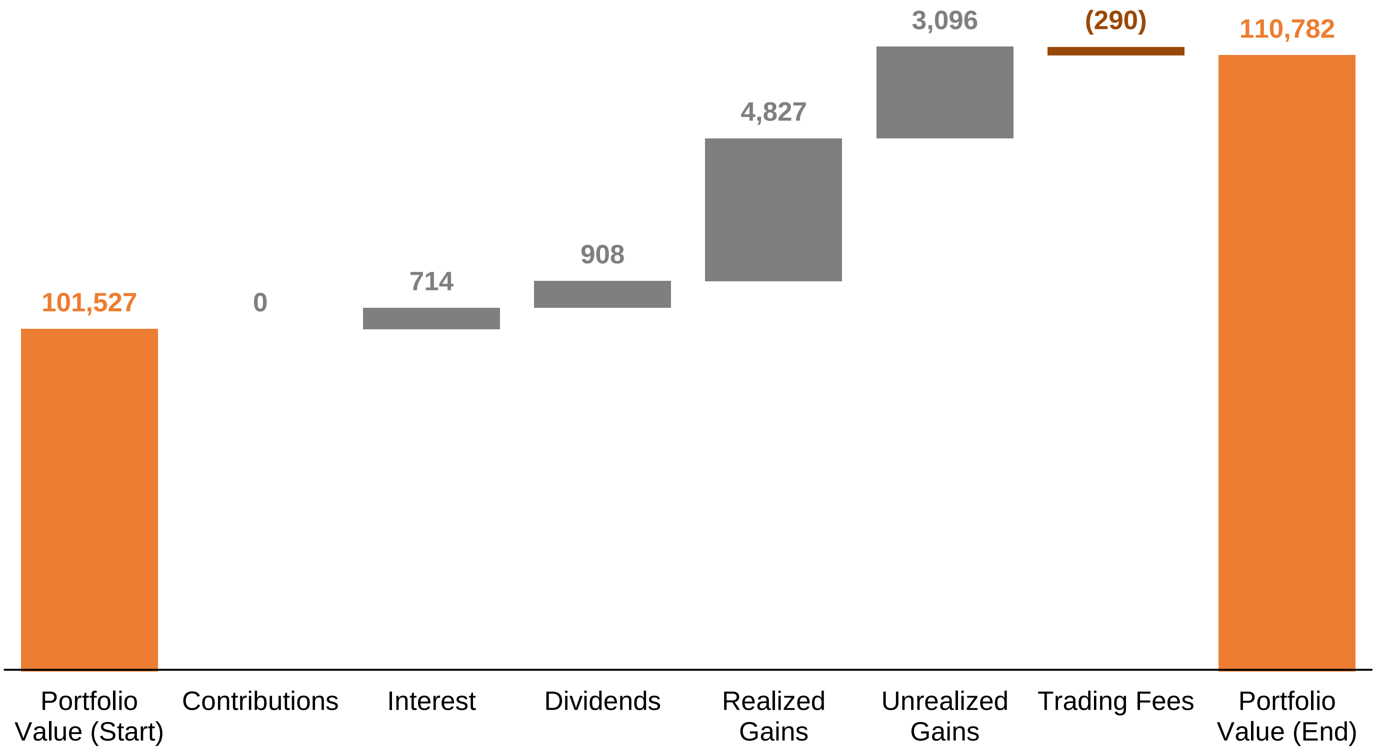
## USD Fund Performance – Since Inception



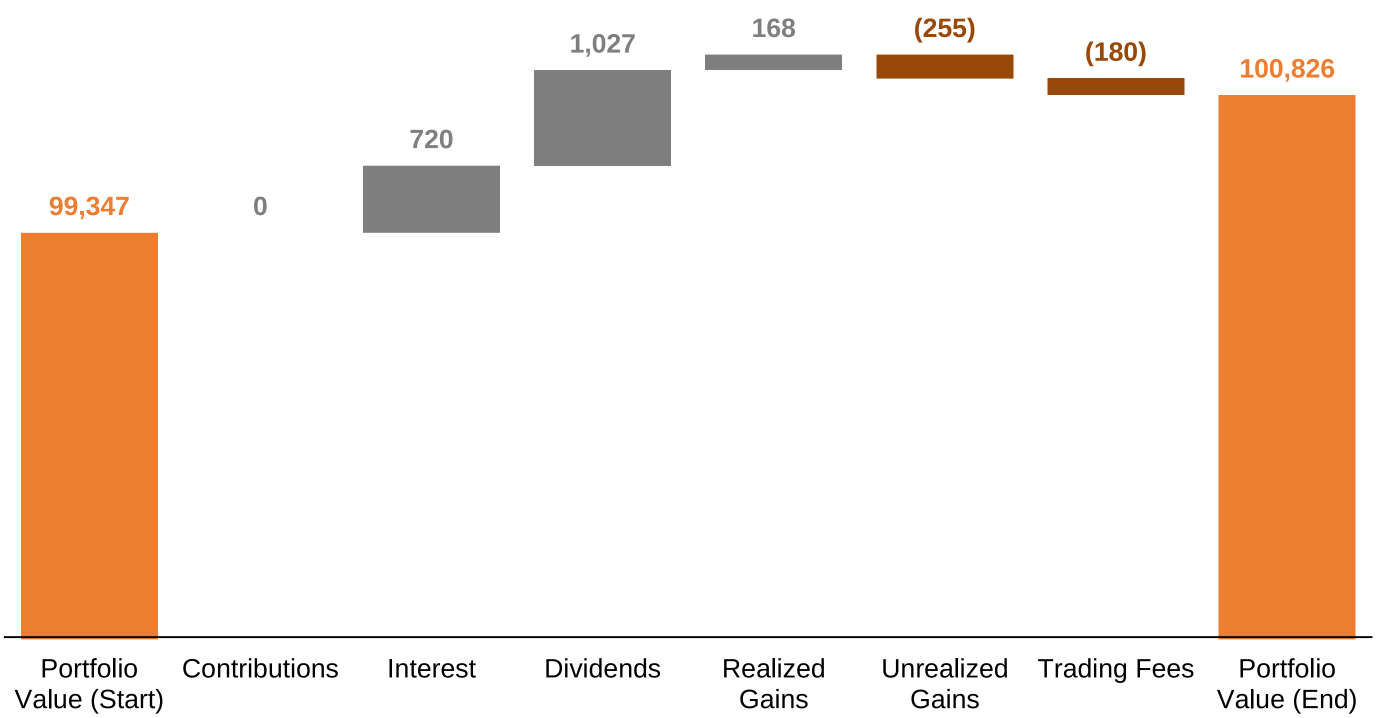

## CAD Fund Performance – Since Inception



## USD Fund Performance Attribution




## CAD Fund Performance Attribution



# Summary of Reports and Pitches

Note: All prices are updated to March 31, 2019 to reflect Limestone Capital's year end.

All reports and pitches can be downloaded by clicking the embedded links.

## Sector Reports

### CONSUMERS

**Is the Golf Industry Escaping the Rough?**

This report discusses the current state of the North American golf industry. Specifically, we explore the recent closures of golf courses throughout North America, the main competitors in the industry, and the development of golf equipment over time in a highly regulated environment.

**US Healthcare – The Industry That Continues to Beat On**

This report discusses the structure, strengths, and weaknesses of the US healthcare system. Moreover, we discuss how the US healthcare system has evolved throughout time and the legislative movements that have influenced the industry's dynamics before taking a deep-dive into four main verticals within the healthcare industry.

### FINANCIAL INSTITUTIONS GROUP (FIG)

**The Rise of Private Equity**

This report discusses the current state of the global private equity industry.

The first component explores the evolving structure of private equity transactions, strategic shifts in investment mandates, and the impact of record levels of dry powder held by private equity firms on valuations across public and private markets.

The second component of this report highlights the emergence of growth equity as a prominent investment strategy as firms seek to stay private longer, the increased prevalence of club deals, notable recent transactions, and a mergers & acquisition overview.

### INDUSTRIALS

**North American Auto Parts Manufacturing**

In this report, we dive deep into the North American Auto Parts Manufacturing industry, exploring the extensive supply chain and looking at how advancements in technology will affect the automobile industry in the near future.

**North American Aircraft Manufacturing**

This report discusses the North American Aircraft Manufacturing industry. Specifically, we dive deep into the competitive landscape exploring the consolidation, defense market, and barriers to entry within it while also outlining the main drivers of demand within the space.

## Sector Reports

### NATURAL RESOURCES

**Understanding Electricity Grids**

This report discusses the infrastructure and usage of North America's electricity grids. We frame a deeper understanding the competitive landscape and the industry dynamics which are being shaped by recent grid modernization efforts as well as take a deeper dive with a case study exploring the rise of electric vehicles and their potential impact on electricity grids.

**Offshore Wind Farms**

This report takes a look at the key aspects of offshore wind energy, an industry poised to experience significant growth beyond North America. We explore the key differences between onshore and offshore wind energy, the history and development of offshore wind, as well as the industry's competitive landscape and its key drivers.

### REAL ESTATE

**Self-Storage Sector Deep Dive**

This report takes a deep dive into the North American self-storage industry. Specifically, we explore why this alternative asset class has been struggling in the past few years, industry trends, the main players in the market, and reasons why industry demand is expected to accelerate moving forward.

**Understanding Data Center REITs**

This report takes a deep dive into the North American data center industry. Specifically, we explore the components of a data center, major sector themes, the main players in the market, and reasons why data centers have become an increasingly favourable REIT sector.

### TECHNOLOGY, MEDIA & TELECOM (TMT)

**Technology IPO Super-cycle**

This report provides an overview of recent U.S. tech IPO activity and outlines notable firms in the space that are currently evaluating whether to go public. The report then discusses three key trends that continue to shape the financing decisions and growth strategies of companies in the U.S. tech sector and other relevant IPO implications that will affect the technology industry in 2019.

**The State of Cybersecurity**

This report will discuss the four primary categories that cyberattacks fall into as well as the motivations behind these malicious attacks. It will then provide an overview of recent regulations that the EU and the US have implemented to address the increasing concerns of cybercrime and discuss cybersecurity trends that shifting the internal operations of companies.

CONSUMERS

## Winnebago Industries (NYSE: WGO) – Sept 14th, 2018

| Price at Pitch: | $37.30 | Target Price: | $46.95 (+26%) | Current Price: | $31.15 (-16%) |
|---|---|---|---|---|---|

**Business Description:** Winnebago manufactures and sells motorhomes, travel trailers, fifth wheel products, and boats to dealers under the Winnebago, Grand Design, and Chris Craft brands.

**Industry:** Due to an increasing number of people retiring and wanting to live an active lifestyle as well as middle-aged people finding themselves with higher levels of disposable income, the RV and towable industry has grown at a CAGR of 14.9% over the last 8 years and is expected to maintain this momentum.

**Efficient Distribution Network:** WGO has a broad distribution network spanning 500 dealers which are predominately in the U.S. with a smaller presence in Canada. This network is also quite diverse, with the largest dealer making up only 10% of revenue. Additionally, WGO's largest supplier makes up only 10% of all raw purchases. Notably, the contracts between WGO and suppliers don't have special contractual agreements.

**Innovative Product Portfolio & Shift to Higher Margins:** WGO has a wide array of RVs and towables (~30 products) and boats allowing them to capture a large part of the market and meet multiple demands. More importantly, the acquisition of Grand Design has allowed WGO to expand into the towable market, which has higher margins than motorized products. Finally, WGO has implemented multiple innovative features such as a flex bed into their products.

**Fig. 1: Segmented Revenue**

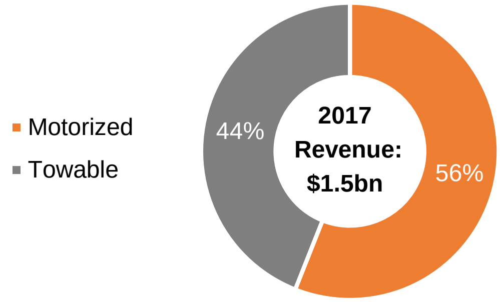



**Fig. 2: Production Facilities**

**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $43.14 |
| Discounted CF | $50.76 |
| Street Concensus | $54.03 |
| **Average** | **$46.95** |

## Executive Decision: Buy

We purchased 255 shares of WGO at a price of $31.20 on October 12, 2018. We believe that WGO has a defensible economic moat in the RV industry, with the only true competitive threat coming from Thor Industries. We believed that a price of $30 represented an attractive entry point for WGO based on historical multiples and our team's intrinsic valuation, which yielded an implied upside of approximately 60%. However, WGO suffered in the final months of 2018, with concerns of channel stuffing in the RV industry coupled with broader negative market sentiment pushing the stock below $20. Since then, the stock has recovered and is currently trading at approximately $33. While we firmly believe in the future prospects of WGO, we continue to watch the stock closely as it is a highly discretionary company. We maintain our price target of approximately $47.

CONSUMERS

## <u>Sleep Country (TSX: ZZZ)</u> – Oct 14th, 2018

**Price at Pitch:** $27.44 **Target Price:** $30.89 (+13%) **Current Price:** $18.97 (-31%)

**Business Description:** Sleep Country is the largest bedding retailer in Canada with an estimated 25% of national market share. The company sells their products under the Sleep Country (Canada-wide) and Dormez-Vous (Quebec) brands, with 247 stores located throughout Canada.

**Resilient Business Model:** Sleep Country has proven to be extremely resilient in the face of economic downturns. Despite the recession in the late 2000s, ZZZ has averaged 5.81% revenue growth, 3.38% EBITDA growth, and has expanded its annual gross profit margin by 5%.

**New Product Offerings:** Sleep Country has been quick to develop new products to compete with growing online competition. Many of these products are high-margin new accessories, a strategic choice as accessories account for an increasing percentage of company revenue and help to create a holistic in-store experience.

**Strong Core Retail Performance:** Management has focused intensely on improving the quality of Sleep Country's brick-and-mortar stores. The subject of management's focus includes enhancing the customer experience through store renovations and training programs, expanding their national presence by opening new store locations, and increasing their competitiveness in e-commerce to create an omni-channel network.

**Fig. 1: Segmented Revenue**

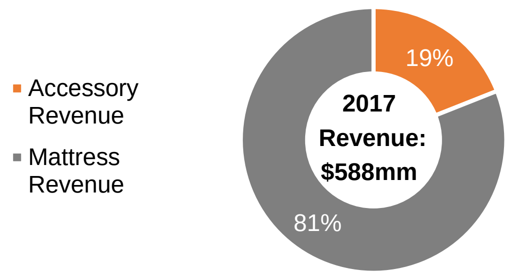



**Fig. 2: Company Growth (CAD mm)**

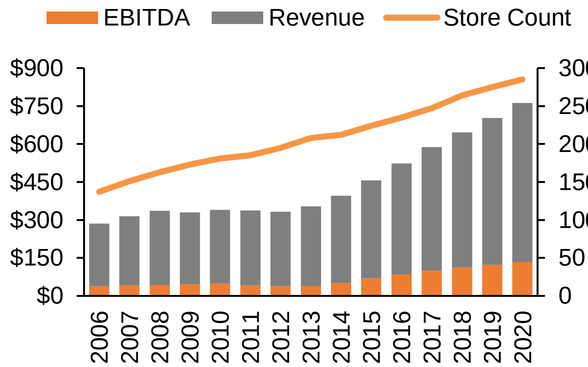
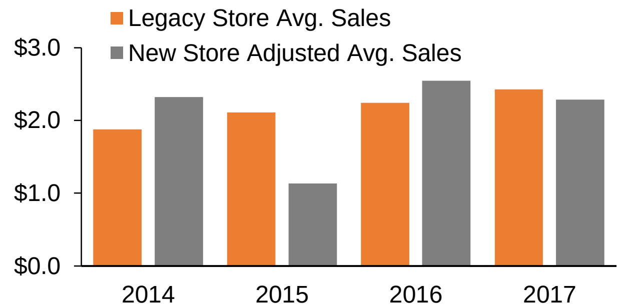



**Fig. 3: Store Performance (CAD mm)**




## Executive Decision: Buy

We decided to add ZZZ to our CAD portfolio, purchasing 310 shares at a price of $24.04 on November 2, 2018. We believe that ZZZ has a resilient business model and is a desirable company to hold throughout an economic cycle. Additionally, we are confident in management's diversification of ZZZ's product suite to become a more broad sleep retailer. Furthermore, we believe that the exit of Sears (a major bedding player) from the Canadian market will allow Sleep Country to capture additional market share, providing a long-term catalyst for the stock. ZZZ has slightly underperformed since purchase due in part to lower-than-expected same-store-sales growth in its last earnings release. Despite this, we remain confident in the long-term prospects of the company and maintain a price target of approximately $31.

CONSUMERS

## Dollarama (TSE: DOL) – Jan 16th, 2019

**Price at Pitch:** $34.14 **Target Price:** $41.73 (+22%) **Current Price:** $35.65 (+4%)

**Business Description:** Dollarama operates 1,192 dollar stores across Canada offering consumer products, general merchandise and seasonal items. All products are priced between $1.00 and $4.00, allowing the company to profitably source items from large close-out sales internationally.

**Low Market Penetration Supports Growth Targets:** Dollarama management has set a target of 1,700 stores by 2027. While many analysts are skeptical of the validity of this target, we believe that it is justified given the current under-penetration of dollar stores in the Canadian market. By looking at a range of multi-national retailers with a mature presence in both the U.S. and Canada, we found a median U.S./CAN store ratio of 8.4x. When applied to Dollar Tree's 14,960 U.S. stores (which is only ~50% of the U.S. market), the Canadian market could expect to support 1,774 dollar stores, well above Dollarama's target.

**Overreaction to New Market Entrants:** Dollarama has experienced a sell-off due to the perceived threat of competitors such as Amazon, Dollar Tree, and Miniso. However, Amazon has struggled to profitably sell products in the $1-4 price range. Additionally, the Canadian market is not a strategic focus for Dollar Tree, especially in light of the recent Starboard Value investment. Finally, the Miniso bankruptcy filing removes the threat of this "Dollarama Disruptor" and potentially creates a market opportunity for Dollarama. Therefore, we believe that these claims are overblown.

**Fig. 1: Segmented Revenue**

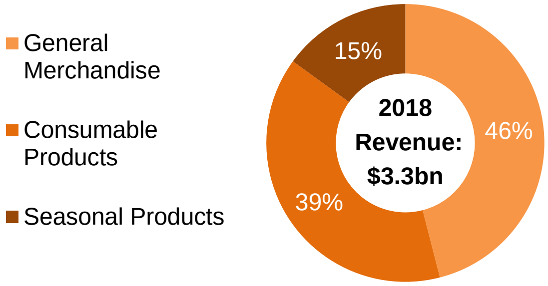



**Fig. 2: Historical EV/NTM EBITDA**

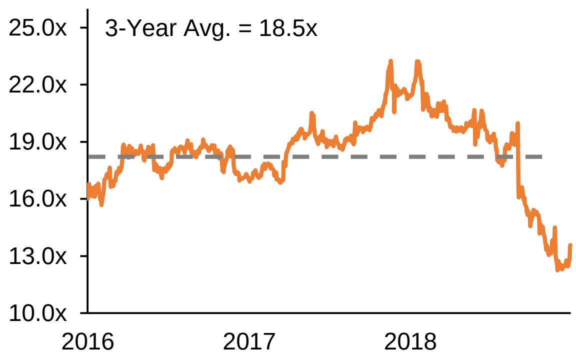



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $29.03 | 0% |
| Precedent Transactions | $25.24 | 0% |
| Discounted CF | $42.69 | 70% |
| Street Consensus | $39.50 | 30% |
| **Average** | **$41.73** | **100%** |

## Executive Decision: Watch

We have high conviction in our analysis of DOL, but do not believe that the price has reached a level at which the implied return justifies a purchase decision. We believe that DOL aligns very well with Limestone's investment philosophy; it has a clear economic moat in the dollar store industry, is a defensible company to own throughout the economic cycle, and has a track record of above-average ROIC. However, the stock has traded in the range of $35 to $38 since it was pitched, which does not imply sufficient return with a price target of approximately $42. We believed that a March 28th earnings release would provide an attractive entry point, but the stock recovered almost immediately following a 5% drop. We maintain DOL in Limestone's watch list and continue to watch the stock price closely for notable movements.

CONSUMERS

## Acushnet Holdings Corp. (NYSE: GOLF) – Mar 9th, 2019

ACUSHNET COMPANY

**Price at Pitch:** $23.94 **Target Price:** $30.67 (+28%) **Current Price:** $23.14 (-3%)

**Business Description:** Acushnet Holdings Corp. designs, develops, manufactures, and distributes golf products worldwide. The company operates under the brands Titleist, FootJoy, Scotty Cameron, and Vokey Design. They sell primarily in the U.S., but have seen growth in foreign markets in earlier years.

**Unparalleled Brand Equity:** Like most competitors in the premium golf segment, Acushnet's brands air television ads to promote products. Acushnet's unique endorsement strategy, in which sponsorship dollars are spread across more players of less prominence, allows them to market their equipment as the most popular among pros.

**Potential for International Expansion:** Acushnet's unique marketing strategy on the PGA tour draws attention both in domestic and international markets, increasing the visibility for Acushnet's brands to growing golf economics. In addition, Fila's majority ownership may be a catalyst for growth in Southeast Asia, where Fila has extensive reach and expertise.

**Strong Operating Metrics:** Acushnet's management team has deleveraged the firm in recent years while utilizing Acushnet's ownership of its supply chain process to increase EBITDA margins and improve R&D processes. Additionally, strategic acquisitions such as Acushnet's 2018 purchase of Links & Kings contribute to Acushnet's growing brand equity and recognition around the world.

**Fig. 1: Segmented Revenue**

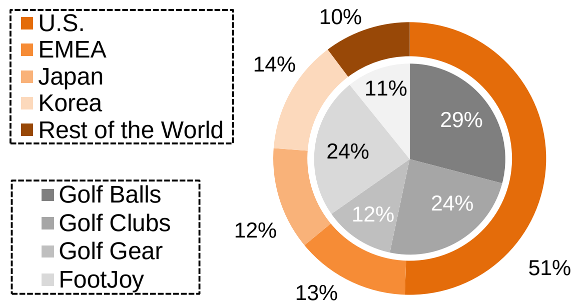



**Fig. 2: Sponsorship By Player Ranking**

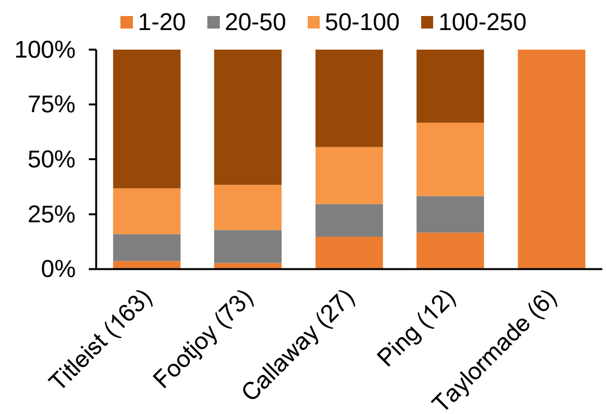



**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $32.84 |
| Discounted CF | $32.00 |
| Street Concensus | $24.49 |
| **Average** | **$30.67** |

## Executive Decision: Watch

We have decided against adding GOLF to the USD portfolio. We agree that GOLF has very strong brand equity through the reach and recognition of its Titleist and FootJoy brands. Additionally, we agree that negative sentiment in the golf industry and a misinterpretation of recent course closures may have unreasonably depressed GOLF's price. However, GOLF still trades at a premium to its closest peers (Callaway and Mizuno), and we are not confident that superior brand equity fully justifies this spread. Additionally, we are hesitant to invest in an extremely discretionary sector such as golf given our current position in Winnebago Industries (WGO). A decision to invest in GOLF would make the USD portfolio overweight in Consumer Discretionary, which is not a position we want to assume at this stage of the economic cycle. We will watch the stock for future movements.

MEDICAL PRODUCTS

## ICU Medical (NASDAQ: ICUI) – Mar 27th, 2019

| Price at Pitch: | $234.84 | Target Price: | $297.74 (+27%) | Current Price: | $239.33 (+2%) |
|---|---|---|---|---|---|

**Overview:** ICU Medical develops, manufactures, and sells medical technologies used in vascular therapy, oncology, and critical care applications. The company offers four product lines: IV Consumables, IV Solutions, IV Systems, and Critical Care.

**Industry:** Medical devices are instruments used in the diagnosis, treatment, and monitoring processes of a variety of health conditions. Due to the competitive nature of the landscape, companies have sought to consolidate their supply chains to create economies of scale, reduce costs, and lower prices to build a competitive advantage.

**Unique Platform Strategy:** ICU Medical is either the first or second market leader in each of the industries they operate within. This is due to ICUI's unique pure-play business model and automated processes that have allowed them to become a low-cost leader. Combining this with sticky, contract-based revenues from the sale of many single-use products leaves ICUI primed for steady growth.

**Mispricing of ICUI vs. Industry Peers:** In late 2018, ICUI's share price fell 29.11% alongside their main competitors. Despite no change in the underlying business, ICUI has continued to trade at a depressed valuation while competitors have rebounded despite having far larger exposures to regulatory risk. This leaves ICUI's price depression unjustified, ultimately providing an opportunity for return generation.

**Fig. 1: Segmented Revenue**

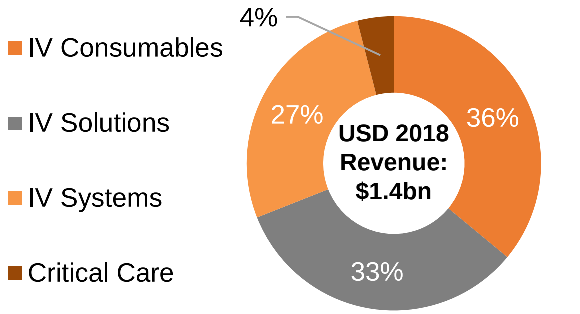



**Fig. 2: Historical EV/NTM EBITDA**

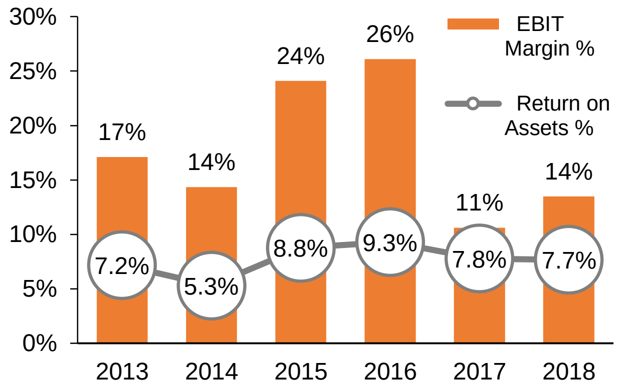
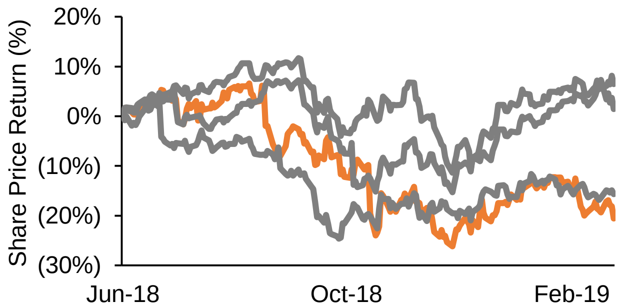



**Fig. 3: Share Price Analysis vs. Peers**




## Executive Decision: Watch

We have a high level of confidence in ICU Medical as a company, and firmly believe management is in a strong position to execute on their growth ambitions. The company's recent acquisition of Pfizer's Hospira brand helped mitigate their previous Achilles Heel of overly-high customer concentration. From a value standpoint however, we believe ICU's current pricing levels will not provide the portfolio with a sufficient margin of safety in the case of an earnings miss or regulatory issues. Furthermore, ICU's best comparables – Baxter and BD & Co. – are currently trading only 0.5x-1.5x higher on an EBITDA basis, despite significantly stronger margin profiles and similar growth prospects. We will continue to monitor ICU on our watch list, and will look for an opportunity with an additional 10-15% of upside.

FINANCIAL INSTITUTIONS GROUP

## Synovus Financial (NYSE: SNV) – Oct 1st, 2018

| | | | | | |
|---|---|---|---|---|---|
| **Price at Pitch:** | $45.25 | **Target Price:** | $52.39 (+16%) | **Current Price:** | $34.36 (-24%) |

**Business Description:** Synovus Financial Corp. (SNV) operates as a bank holding company for Synovus Bank, providing various financial products and services such as life insurance financing, traditional banking, and mortgage services. Synovus currently operate through 28 divisions and 250 branches across the Unites States. Its key segments are as follows:

1. **Retail Banking**: Deposits, mortgages, & loans
2. **Capital Markets**: Portfolio management
3. **Small Business**: Cash flow management

**Rapid Disposal of Distressed Assets:** Distressed asset sales are part of SNV's long-term strategy of improving balance sheet health, asset quality, and enhancing future earnings. As a result, SNV's non-performing loans as a percentage of total loans have fallen to the lowest among their peers, putting them in a strong capital position moving forwards.

**Florida Expansion via FCB Acquisition:** SNV's acquisition of the Florida Community Bank (FCB), was expected to allow them to leverage existing investments across a broader geographic footprint, increase their growth profile via complimentary product capabilities, and mitigate risk by reducing deposit concentration in Georgia. Although the deal is dilutive to tangible book value by 3.3%, it is expected to become neutral within 2 years.

**Fig. 1: Bank Branch Locations**

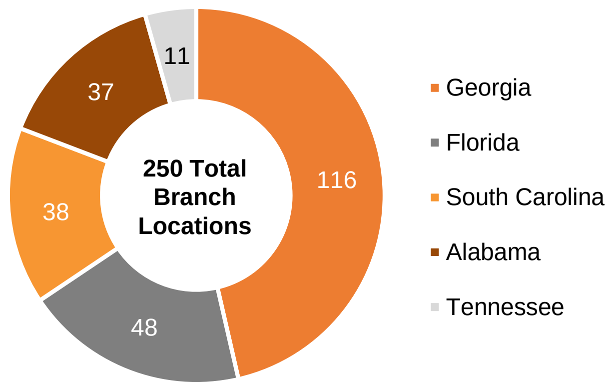
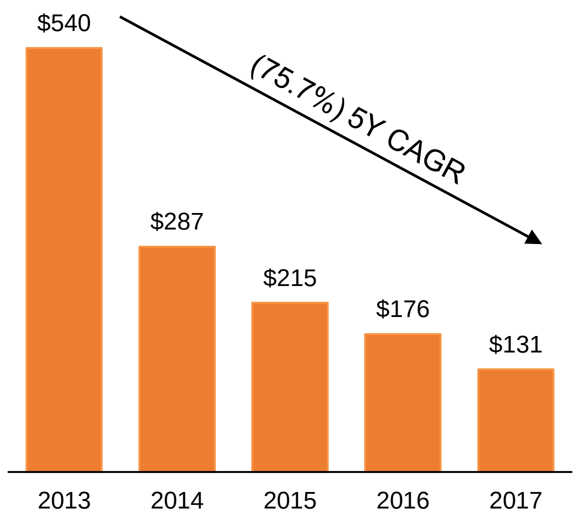



**Fig. 2: Non-performing Asset Divestitures**




## Executive Decision: Watch

Ultimately, we decided to not add Synovus to the USD portfolio. At the time of the pitch, SNV appeared to have an attractive valuation, trading at a discount to a peer group of regional banks as well as to its historical self on a P/E and P/TBV basis. However, we believe that this discount may have been justified given the uncertainty regarding the FCB merger and below-average ROE (11.2% vs. an industry average of 14.7%). Additionally, we believe that the sell-off following the merger announcement may have been justified given its dilutive nature and increased exposure to a Florida market that many believe to be at the top of the economic cycle. Finally, our FIG team's intrinsic valuation implied an upside of only 14.4%, which we did not believe to be sufficient for investment. We maintain SNV on our watch list and will continue to follow the company.

FINANCIAL INSTITUTIONS GROUP

## Brookfield Business Partners (TSX: BBU) – Dec 29th, 2018

**Price at Pitch:** $42.15 **Target Price:** $60.92 (+45%) **Current Price:** $52.95 (+26%)

**Business Description:** Brookfield Business Partners (TSX: BBU) is the primary public vehicle in which Brookfield owns and operates the business services and industrial operations of its private equity group.

**Contrarian Investment Mandate:** BBU uses a contrarian investment style that focuses on value investing in addition to finding assets that are out of favor at a given time. Brookfield's formula for making contrarian investments deploys capital where it is most needed and in the shortest supply globally. BBU is also expected to launch its largest fund ever to support an intensified global strategy. Fund V positions BBU to take advantage of distressed situations and has discussed acquiring firms in emerging markets such as Brazil and India.

**Effective Capital Deployment:**. BBU's outstanding ROIIC support its investing and operating competence. BBU's long-term, value oriented approach to investing in addition to its highly competent management team will result in a company that will continue to compound capital at high rates of return.

**The Brookfield Umbrella:** BBU is Brookfield Asset Management's investment vehicle focused on investing in the Industrials and Business Services sectors. When comparing Brookfield Asset Management's (BAM) performance to that of Berkshire Hathaway's, BAM yielded an 11.2x MOIC compared to a 4.5x MOIC from Berkshire Hathaway.

**Fig. 1: Segmented Revenue**

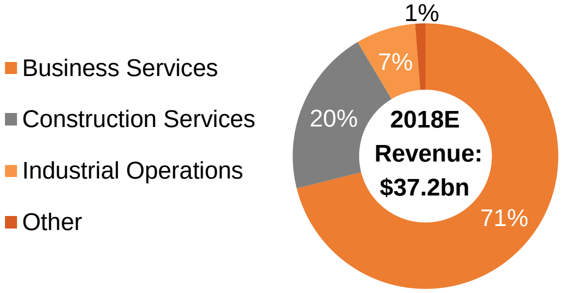



**Fig. 2: Historical EV/NTM EBITDA**

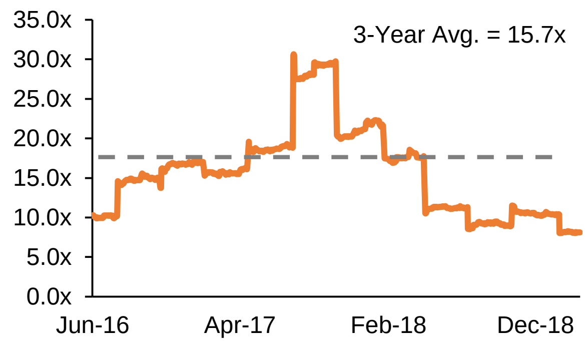



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| SOTP | $64.53 | 25% |
| Discounted CF | $51.31 | 35% |
| Street Consensus | $66.18 | 40% |
| **Average** | **$60.92** | **100%** |

## Executive Decision: Buy

We decided to add BBU to our CAD portfolio, purchasing 127 shares at a price of $42.70 on January 29, 2019. We were particularly attracted to the strong track record of BBU's management team and the growth opportunities and diversification benefits related to BBU's exposure in emerging markets. Additionally, we think that investing in BBU provides an additional level of security over other private equity companies due to its relationship with Brookfield Asset Management. Since purchasing BBU, the stock has performed quite well, boosted by recent acquisitions of Johnson Controls, Healthscope, and Oaktree Capital Management. We continue to hold BBU in the CAD portfolio with a target price of approximately $60 and maintain a stop loss of $40, at which point we may begin to reassess our position.

FINANCIAL INSTITUTIONS GROUP

## Third Point Reinsurance (NYSE: TPRE) – Jan 27th, 2019

THIRD POINT RE

| **Price at Pitch:** | $10.44 | **Target Price:** | $15.32 (+47%) | **Current Price:** | $10.38 (-1%) |
|---|---|---|---|---|---|

**Business Description:** Third Point Reinsurance is a Bermuda-based reinsurance company that provides property and casualty (P&C) reinsurance products to insurance companies worldwide. TPRE's investments are managed by Third Point LLC, a long/short equity-focused hedge fund run by Daniel Loeb.

**Severely Discounted to Book Value:** TPRE trades at a steep discount when compared to both an Reinsurance Index and its historical multiples. The reinsurance-hedge fund hybrid model is still very new; however, we feel like purchasing TPRE below its book value will provide us a large margin of safety.

**Unjustified Selloff from Loeb's Worst Year:** 2018 was a bad year for hedge fund's, but Loeb received a lot of negative media attention for his performance of ~(11%). Equity analysts began downgrading investment return estimates which further added to TPRE's selloff. Loeb has beaten the market by ~7% since the inception of his fund and we believe than an average year for Loeb's portfolio will boost investor confidence once again.

**Improving Underwriting Results:** TPRE's niche market focus and low-risk contract structures will help gradually improve loss ratio towards profitability (100%). The company intends to gradually increase risk appetite to higher margin businesses and has attracted experience talent to ensure strategy is effectively executed.

**Fig. 1: Historical P/BV Multiples**

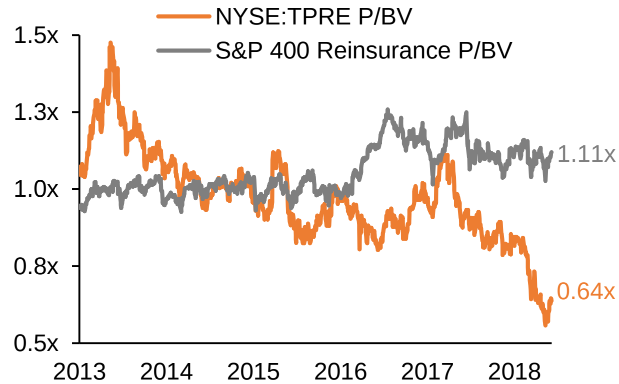



**Fig. 2: 2018 and Historical Third Point Fund Performance**

| | December | 2018 |
|---|---|---|
| Third Point Fund | (6.2%) | (11.1%) |
| S&P 500 | (9.0%) | (4.4%) |

| | Loeb's Offshore Fund | S&P 500 |
|---|---|---|
| Annualized Return | 14.4% | 7.6% |

**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $14.66 | 33% |
| Precedent Transactions | $16.31 | 33% |
| Street Consensus | $15.00 | 33% |
| **Average** | **$15.32** | **100%** |

## Executive Decision: Watch

We decided not to add TPRE to the USD portfolio. From a valuation standpoint, we agree with our FIG team that the company may be undervalued and is currently trading at an attractive entry point. At the time of the pitch, TPRE was trading at a 5-year low on a P/BV basis and the P/BV spread between TPRE and the S&P 400 Reinsurance Index was 0.47x. Additionally, TPRE currently has a 3-year low short interest. However, we were concerned by the fact that TPRE's performance is heavily tied to Loeb's hedge fund. Additionally, we believe that TPRE's primary mandate is to fundraise for Loeb's hedge fund, and as such we are not confident that management will successfully navigate the company to a combined ratio below 100%. Due to these reasons, we did not think that TPRE was a strong match with Limestone's investment philosophy.



## Universal Insurance (NYSE: UVE) – Mar 13th, 2019

**Price at Pitch:** $31.41 **Target Price:** $39.83 (+27%) **Current Price:** $31.00 (-1%)

**Business Description:** Universal Insurance Holdings provides homeowners, property and personal liability insurance primarily in Florida, but with a presence in other U.S. states. They are currently the largest private personal residential insurance company in the state by direct written premiums in-force, distributing their products through a network of independent agents.

**Improving Customer Experience:** UVE prides themselves in being a first-mover in the Florida online insurance policy market. Through services such as ‘Clovered.com’ and Universal Direct, UVE is able to enhance customer experience across the entire digital value chain – from the filing of a claim to its collection.

**Superior Downside Protection via Reinsurance:** UVE’s well established reinsurance program involves partnering with reinsurers who maintain an S&P Global rating of A+ or higher. These relationships allow UVE to underwrite a greater number of policies without excessive risk exposure to storm-prone Florida.

**Diversified Geographic Expansion:** UVE’s selective organic growth strategy has led to a higher quality premium profile in Florida. They currently hold licenses to operate in Illinois, Iowa, and West Virginia, highlighting their untapped growth potential.

**Wide Economic Moat in Florida:** Depth of experience in the risky Florida insurance market, which competitors shy away from, coupled with a strong reinsurance program create a wide moat in the state.

**Fig. 1: 2019 Price-Volume Chart**

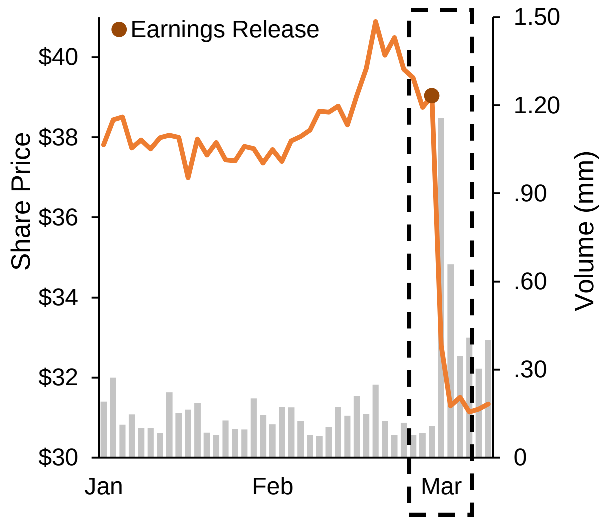



**Fig. 2: Geographic Operations**


## Executive Decision: Watch

UVE was originally pitched by Limestone’s FIG team in the Fall of 2017. After purchasing UVE at a price of $21.60, Limestone exited the position for a realized return of 109%. Given the substantial recent price drop, the FIG team decided to revisit UVE; however, we do not believe that there is substantial upside at this price to justify a second purchase decision. We are concerned that UVE has exhausted all of the “low hanging fruit” in its geographic expansion, as it may be less able to leverage its Florida-specific expertise as it begins underwriting policies in less disaster-prone landlocked states. Additionally, UVE is trading relatively in line with its 3-year average P/E and P/BV multiples. Coupled with a 23% implied return from our intrinsic valuation, we do not have enough conviction in UVE at its current price, but will continue to watch the company closely.

INDUSTRIALS

## SNC Lavalin (TSX: SNC) – Oct 1st , 2018

**Price at Pitch:** $52.15 **Target Price:** $66.83 (+28%) **Current Price:** $33.91 (-35%)

**Business Description:** SNC Lavalin is an international engineering and construction service provider with operations in ~100 countries globally. Some projects include Canada's first LNG regasification terminal and agricultural and land improvement contracts.

**Partial Sale of 407 Ownership:** SNC Lavalin is looking to sell 6.76% of their 16.67% ownership in the 407 ETR. The transaction is expected to close by the end of 2018. Recent toll road transactions have been sold at inflated multiples, so now would be an opportunistic time to exit a partial stake and realize a return. Moreover, in comparison to other toll routes, the 407 should sell higher due to flexible pricing that does not need approval from the province and a long concession period that expires in 2099.

**Lucrative Mergers and Acquisitions:** SNC has a history of implications that align with a different company strategy. Kentz helped establish SNC as a global tier-1 engineered company; Atkins expanded the global reach of their professional services; Date Transfer Solutions developed the company's global digital strategy. After facing legal issues in 2012, SNC decided to re-focus its business model and set out an 8-year plan outlined. Though historical performance does not dictate future returns, the company has a strong acquisition strategy that they plan on expanding in the short-term future.

**Fig. 1: 2017 Segmented Revenue**

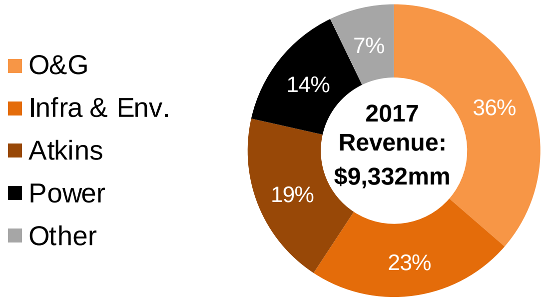



**Fig. 2: Revenue from 407 in Portfolio**

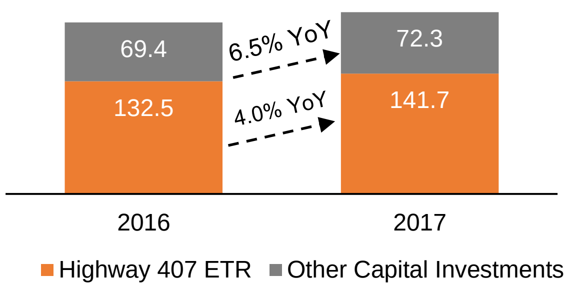



**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $57.03 |
| Discounted CF | $76.63 |
| Street Consensus | $70.39 |
| **Average** | **$66.83** |

## Executive Decision: Buy

While our initial decision on SNC was a watch, we decided to add the stock to our CAD portfolio on October 12, 2018 at $43.75 amid concerns the company may lose future federal contracts due to an overseas bribery case. We felt the market overreacted to this news and saw it as an opportunity to enter into the stock at an attractive valuation. While the stock performed well in the following months, it suddenly fell 28% after the company issued a profit warning in late January. Based on this new information, we felt the company was no longer undervalued, electing to sell the shares at a loss. Since then, SNC has become embroiled in a political scandal which has caused shares to fall even further. From this experience, we learned the importance of identifying strong corporate governance and remaining heavily focused on fundamentals in making our investment decisions.

INDUSTRIALS

# Linamar Corp. (TSX: LNR) – Nov 11th, 2018

**Price at Pitch:** $48.21 **Target Price:** $72.11 (+50%) **Current Price:** $47.92 (-1%)

**Business Description:** Linamar Corporation manufactures and sells precision metallic components, modules, and and other automotive input systems in Canada, the United States, APAC, and Europe. It operated in two segments: Powertrain/Driveline and Industrial.

**Positioned For Future Market Opportunities:** Vehicle propulsion is a $500bn market that is expected to grow consistently over the next 20 years. With the agriculture industry in the beginning stages of a cyclical recovery, Linamar's recent acquisition of MacDon, who has the leading market share in the industry, the company has positioned itself well to capture the expected growth. This acquisition is a part of a strategic diversification plan which enhances Linamar's position of a globally diversified manufacturer.

**Strong Backlog Paving Way Through Economic Cycle:** Linamar's backlog has allowed them to secure enough business to meet their longer term growth goals. They are on track to reach $8.5-9bn in annual sales by 2021. The company has also maintained its market share growth (+10% sales growth in 2017) despite any downturn in the North American automotive market (-4% in 2017). This consistent growth has allowed Linamar to create a competitive position and introduce a variety of new products to their business in 2018.

**Fig. 1: Segmented Revenue**

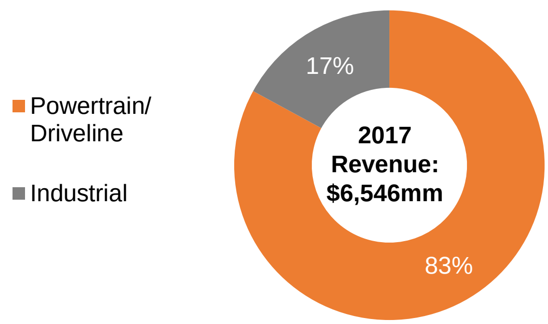



**Fig. 2: Industry Market Share**

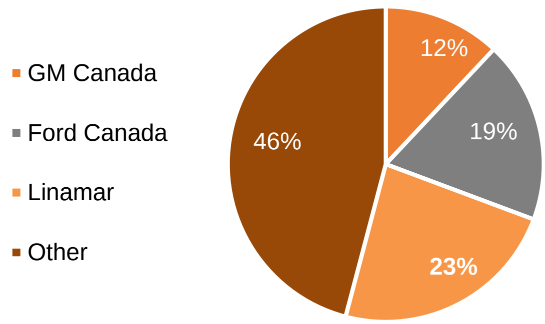



**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $60.61 |
| Self-Valuation | $83.96 |
| Discounted CF | $69.10 |
| Street Consensus | $74.75 |
| **Average** | **$72.11** |

## Executive Decision: Watch

We decided not to add LNR to our CAD portfolio. While we agreed that a recent price decline made the entry multiple attractive and found management's insider ownership promising, we found the potential future sector-specific weakness to be troubling. With auto sales near all-time highs, the possibility of an impending U.S. recession makes this relatively low-margin business an especially risky investment. Additionally, while backlog for the company has remained strong thus far, the highly-competitive nature of the industry means that LNR could lose a contract at any time, significantly impairing the market value of the company. Fundamentally, we believe that the management team is strong and committed to delivering value for shareholders, and we look forward to continuing to monitor the stock for an improvement in macroeconomic conditions.

INDUSTRIALS

# Trex Company Inc. (NYSE: TREX) – Feb 10th, 2019

**Price at Pitch:** $75.42 **Target Price:** $69.74 (-8%) **Current Price:** $61.52 (-18%)

**Business Description:** Trex Company is the world's largest manufacturer of wood-alternative decking and riling products. The company is also the leading national provider of customer-engineered railing systems and a leading supplier of staging equipment. TREX has two main product segments: residential and commercial. Residential products are mainly sold through wholesale distributors, while commercial products are sold through direct sales staff.

**Not Just a Building Product Company:** Traditionally, consumers have been loyal to wood products; however we are seeing a shift that is making composite decking materials more popular. TREX currently makes up ~50% of composite decking market share, putting them in an ideal position to capitalize on this shift in consumer demand. Moreover, the company has a variety of major products underway, mainly driven to their acquisition of SC Company.

**Cost Advantages Support Accelerating Growth:** The key competitive advantage TREX has over it's competition is the margins the company is able to achieve. Through disciplined investment strategies including extending their brand reach, optimizing operations, and focusing on capital allocation, TREX is able to consistently drive profitable growth. Moreover, the company has three specific cost reduction strategies which have allowed them to squeeze margins as much as possible. This in turn has lead to new product development adding to future growth.

**Fig. 1: 2018 Segmented Revenue**

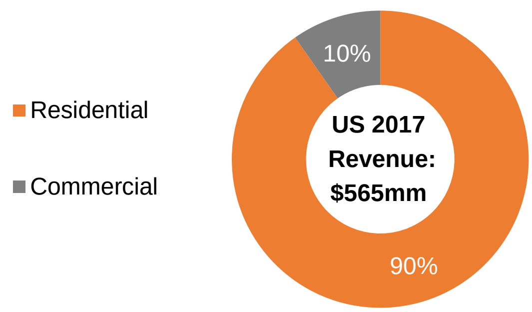



**Fig. 2: Expanded Brand Reach**

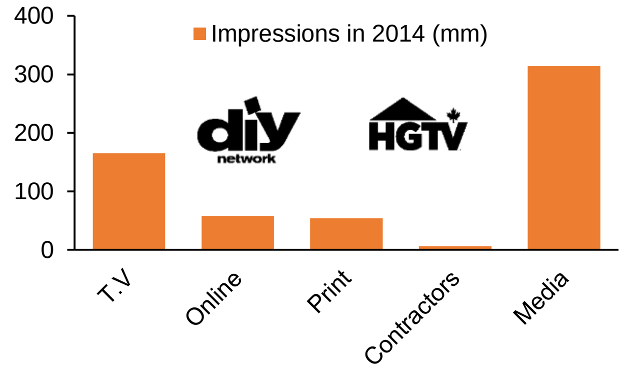
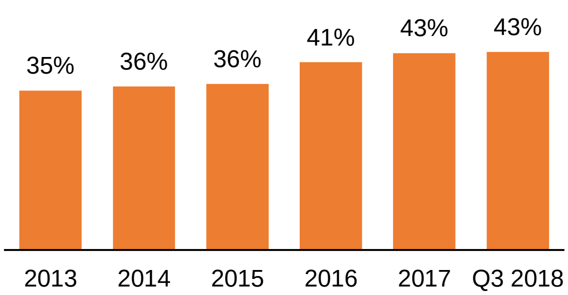



**Fig. 3: Historical Margin Expansion**




## Executive Decision: Watch

Consistent with Industrials' hold recommendation, we elected not to add TREX to our USD portfolio. TREX has held a leading market position in the composite decking industry for over a decade, and they have consistently demonstrated superior margins and operating metrics relative to competitors. The company has a track record of delivering high returns on capital and has an experienced management team. However, the company trades at a significant premium to peers, and this premium has only increased in recent months. Given the company's exposure to the cyclical housing market, there is significant downside risk in purchasing the stock near the end of a lengthy bull market. Finally, an intrinsic valuation revealed the company was fairly valued despite optimistic assumptions, giving us further confidence in our hold decision.

INDUSTRIALS

## Spirit AeroSystems (NYSE: SPR) – Apr 3rd, 2019

**Price at Pitch:** $88.12 **Target Price:** $108.00 (+23%) **Current Price:** -

**Business Description:** Spirit AeroSystems is the largest independent manufacturer of aerostructures in the world. The company designs and builds fuselages, nacelles, struts, wing structures and flight control surfaces. SPR is also the largest independent supplier of aerostructures to Boeing. Moreover, the company is the top supplier of wing systems for the Airbus A320 family.

**Secured Revenues Facilitates Supply Side Growth:**

SPR has secured a number of long-term contracts with Airbus and Boeing ensuring recurring revenue and top-line growth through to 2023. Major projects include the Boeing 737 and 787. Moreover, the company has hedged against Boeing despite majority of the revenue coming from the OEM by seeking partnerships with other OEM's. Lastly, there are favorable tailwinds emerging from supply chain strategy. The company has unveiled 4 Axis Center of Excellence in Oklahoma and Wichita which are expected to drive production rates and cut costs significantly, further allowing SPR to competitively bid for more contracts.

**Strong Fundamentals with Significant Backlog:** SPR has committed an average of $9 mm YoY to be deployed into R&D. Developing their unique IP and technology will improve their products and allow them to be more competitive. The company currently has a backlog of $48.4 bn through 2023 and approximately 17% will be converted into revenue in 2019.

**Fig. 1: Segmented Revenue**

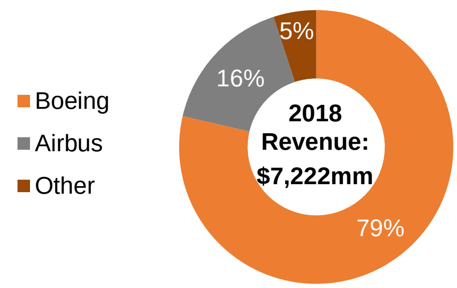



**Fig. 2: Net Revenues by Customers**

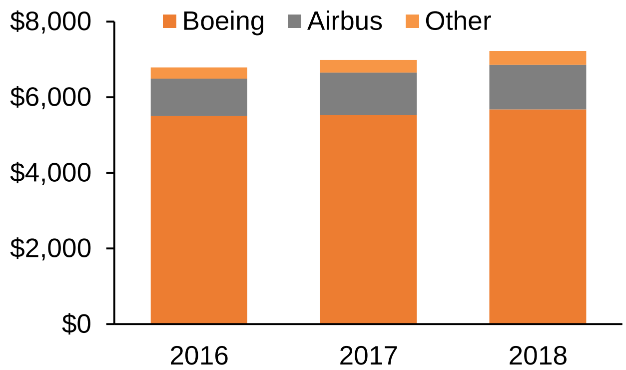



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $121.07 | 30% |
| Discounted CF | $103.40 | 40% |
| Street Consensus | $102.50 | 30% |
| **Average** | **$108.43** | **100%** |

## Executive Decision: Watch

We decided not to add SPR to our USD portfolio. We believe the company has a strong competitive position and has consistently demonstrated its ability to command higher prices from customers through contract negotiations. Additionally, the company has taken steps to reduce its reliance on Boeing by acquiring suppliers to Airbus and other aerospace companies. However, we believe that the valuation was not attractive enough to justify taking on the customer concentration risk inherent in the business. In 2018, Boeing alone accounted for 79% of SPR's revenue. As a result, any perceived chance of a contract dispute between the firms would have an outsized impact on SPR's valuation. Ultimately, we do not believe that investing in SPR provides any additional upside compared to buying Boeing directly, but it does carry additional risks.

NATURAL RESOURCES

## Noble Midstream Partners (NYSE: NBLX) – Sept 23rd, 2018

| **Price at Pitch:** | $37.02 | **Target Price:** | $55.00 (+49%) | **Current Price:** | $36.01 (-3%) |
|---|---|---|---|---|---|

**Business Description:** Noble Midstream Partners is a midstream company formed by parent company Noble to own, operate, develop and acquire a wide range of midstream infrastructure assets. The firm has ROFR on drop-down assets from the parent company. Their current areas of focus are in the DJ Basin, located in Colorado, and the Southern Delaware Basin of the Permian Basin, Texas.

**M&A Provides Better than Expected Growth:** The Black Diamond Joint Venture with Greenfield Midstream projects exit transport volumes at 80-90 Mbl/d, significantly better than the 75Mbl/d outlined in the acquisition case. In addition, their plan to acquire Advantage Pipeline, L.L.C strategically provides Noble a movement into crude transmission while expanding their Delaware Basin footprint.

**Change in Production Provides a Path for Growth:** The Permian basin has experienced takeaway constraints as there is not enough infrastructure to transport it's resources. Expansion in the basin and in overall North American oil production is expected to drive one of the largest sources of growth for Noble.

**Best in Class Fundamentals:** Noble Midstream partners has a robust balance sheet, with significantly lower Net Debt/EBITDA than competitors. Their contract terms are structured in a long-term, fixed fee manner to hedge against commodity risk and have an 11-years weighted average life.

**Fig. 1: Daily Throughput of Assets**

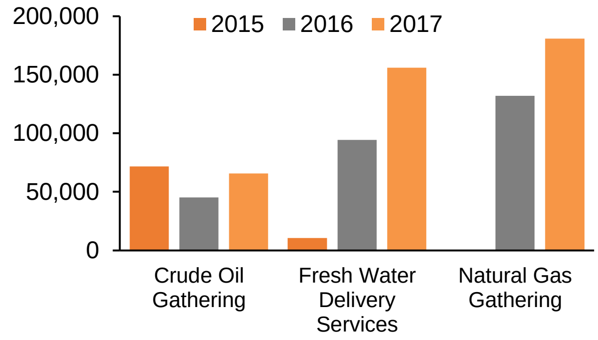



**Fig. 2: North American Oil Production**

*(Thousands of Barrels/Day)*

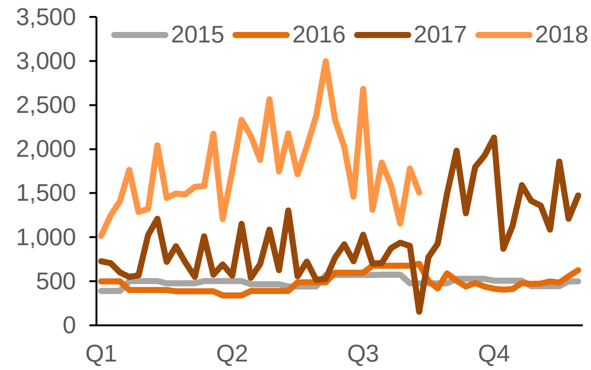



**Fig. 3: Price Target Analysis**

| **Valuation Summary** | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $59.31 | 20% |
| Discounted CF | $52.86 | 60% |
| Street Consensus | $60.11 | 20% |
| **Average** | **$55.60** | **100%** |

## Executive Decision: Watch

We ultimately decided not to add Noble Midstream to the USD portfolio. At the time of the pitch, Noble appeared to have an attractive valuation, trading at a discount to many of its peers and itself historically as well as an intrinsic valuation which implied an upside of 39%. However, there was significant risk surrounding the company due to the Colorado Proposition 112 and the impact that the changing regulation could have on Noble's ability to operate in the state. Although fundamentally strong, we felt that the one-time event was too risky in terms of value destruction for the stock. Following the positive announcement of the defeat of Proposition 112, the stock appreciated for a short period before normalizing to pre-election levels. We have maintained Noble Midstream on our watch list and will continue to monitor the company.

NATURAL RESOURCES

## Algonquin Power & Utilities (TSE: AQN) – Dec 2nd, 2018

| Price at Pitch: | $14.10 | Target Price: | $15.59 (+11%) | Current Price: | $15.03 (+7%) |
|---|---|---|---|---|---|

**Business Description:** Algonquin owns and operates a portfolio of regulated and non-regulated assets through its two business units in Canada and the United States with a total asset value exceeding $10 billion. AQN's two segmented business units are Liberty Power (operates regulated renewable and thermal electric generation assets) and Liberty Utilities (operates a portfolio of U.S. based regulated electric, natural gas, water distribution, and transmission operations).

**Diverse and Stable Portfolio:** Liberty Utilities Group owns 762,000 connections across numerous states, up from 565,000 and 489,000 over the last two years. Notably, the recent accretive St. Lawrence Gas acquisition and AAGES initiative will lead to international expansion. Liberty Power Group has 87% of electrical generation output sold to long-term contractual arrangements. It's pipeline of 361 MW from wind and solar facilities has a weighted average contract life of 22 years.

**Management is Well Incentivized:** Management took advantage of AQN's mid-cap size to bid for smaller investments and acquisitions. The current strategy is not overly reliant and M&A and the 5-year plan is on trajectory for 10%+ organic growth. Directors receive 50% of their annual compensation in DSUs while key employees receive portion or option to receive entire bonus in RSU in lieu of cash.

**Fig. 1: Segmented 2018 Revenue**

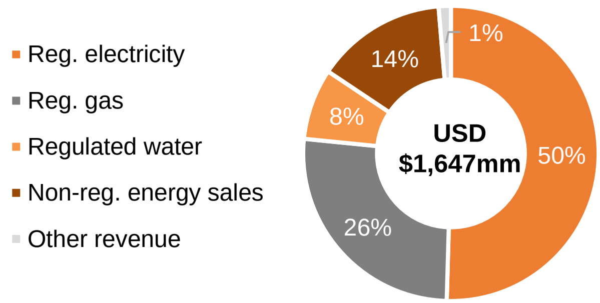



**Fig. 2: Avg. Life of Contracted Power**

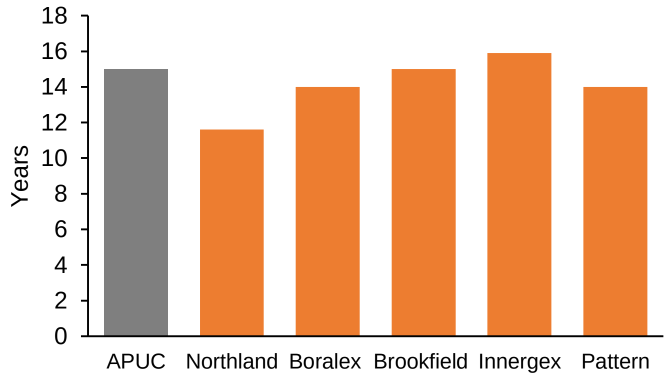



**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables (25%) | $11.45 |
| Discounted CF (50%) | $17.87 |
| Street Consensus | $15.16 |
| **Average** | **$15.59** |

## Executive Decision: Buy

We decided to purchase Algonquin Power and add it to our CAD portfolio. At the time of the pitch, we felt that the company had strong revenue diversity across power sources for both their generation and distribution business lines, and a strong growth pipeline with weighted-average contract lives much greater than the industry average. We agreed with the Natural Resources team's valuation and felt that the implied return (+15%) yielded enough return for a mature player within this industry coupled with an attractive dividend yield. Although the commoditized product offering has limited differentiation from competitors, the diversified capital program is a strong asset in such a capital-intensive industry. We ultimately decided to purchase 274 shares at an average price of $14.40 and will continue to monitor the stock.

NATURAL RESOURCES

## Centerra Gold (TSE: CG) – Jan 30th, 2019

| Price at Pitch: | $6.67 | Target Price: | $8.36 (+25%) | Current Price: | $7.01 (+5%) |
|---|---|---|---|---|---|

**Business Description:** Centerra Gold is a mining company that produces predominantly gold, copper and molybdenum. It owns several mines around the world, but only two are currently producing. Kumtor is the largest mine in Central Asia operated by a Western company. Mount Milligan is a truck-shovel open pit mine located in British Columbia.

**Superior Financial Strength:** Relative to the all-in sustaining costs (AISC) of similar companies, Centerra has managed to maintain a low-cost profile that has improved notably over the past few years. Coupled with the predicted increase in the price of gold, this will create healthy margin strength to fuel cash flow generation moving forward

**Optimistic Portfolio Expansions:** The two newest developments, Öksüt and Kemess Underground, promise the company's lowest AISC and are expected to increase company production by 25%+. A strong current development pipeline and a robust balance sheet with strong liquidity demonstrate a bright future for the company that is not appreciated by investors.

**Kyrgyzstan Situation:** Investors have been concerned regarding contentions between the Kyrgyzstan government and Centerra Gold. However, investors have consistently been proven wrong and the Kyrgyzstan government is extremely unlikely to interfere in the Kumtor operations, since nearly 10% of the country's GDP comes from the mine.

**Fig. 1: Segmented Revenue**

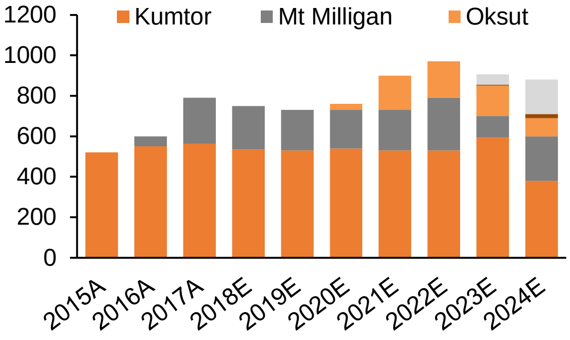



**Fig. 2: All-in Sustaining Cost**

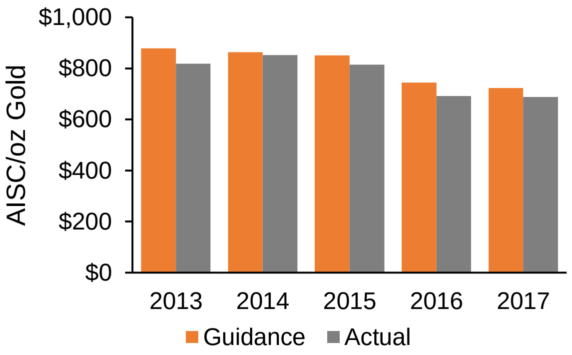



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $8.54 | 25% |
| NAV | $8.26 | 50% |
| Street Consensus | $8.39 | 25% |
| **Average** | **$8.36** | **100%** |

## Executive Decision: Watch

We decided not to add Centerra Gold to the CAD portfolio. While we felt that Centerra's strong pipeline of developing assets and downward-trending all-in sustaining costs were very attractive, we did not have conviction in the stock largely due to cyclically high gold prices. While the valuation indicated an implied return of (+26%), we did not feel that the upside adequately compensated for the risk of asset nationalization in Kyrgyzstan. Centerra's Kumtor mine comprises ~10% of Kyrgyzstan's national GDP, and has a long history of potential nationalization. Additionally, given the young asset base, we felt that the company is extremely susceptible to delays in gold production, which could adversely impact the return on the stock. We will continue to monitor Centerra and revisit the stock if it slides to a more attractive entry position.

Sources: CapitalIQ, Investor Presentation, Bloomberg, Equity Research

NATURAL RESOURCES

## Hudbay Minerals Inc. (TSE: HBM) – Mar 20th, 2019

**Price at Pitch:** $9.30 **Target Price:** $10.11 (+9%) **Current Price:** $9.55 (3%)

**Business Description:** Hudbay is an integrated mining company primarily producing copper concentrate, molybdenum concentrate and zinc metal. With assets in North and South America, the company is focused on the discovery, production and marketing of base and precious metals. Hudbay owns 3 polymetallic mines, 4 ore concentrators and 1 zinc production facility in Canada and Peru, and copper projects in Arizona and Nevada (U.S.)

**Asset Portfolio Primed for Success After Recent Developments :** Rosemont project (expected to add an annual EBITDA comparable to Hudbay's LTM figure) receives a long-awaited permit and a newly simplified ownership structure which allows for increased flexibility, signaling the last steps before development starts. A new mine plan for Lalor capitalizes on synergies with close-by mill to increase production and expected lifespan as well as cut costs.

**Strong Potential for Management Shakeup with Fresh Perspectives and New Ideas:** Ongoing activist campaign is being led by Waterton, a mining-focused private equity firm as well as Hudbay's 2nd largest and well-respected investor, holding 12% of shares. Waterton seeks to push the company's management team to new heights, by proposing a change in management with 8 new independent nominees. New expertise areas include permitting experience, stakeholder relations in Peru, mining technology and financing, operating open-pit mines.

**Fig. 1: Segmented 2018 Revenue**

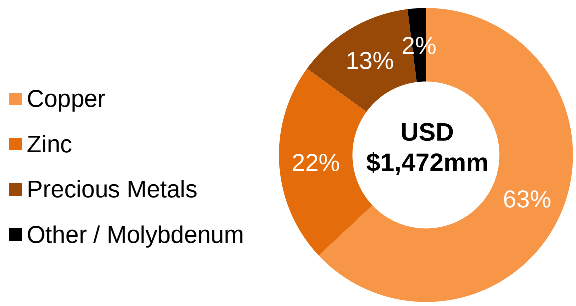



**Fig. 2: HBM Revenue Mix Forecast**

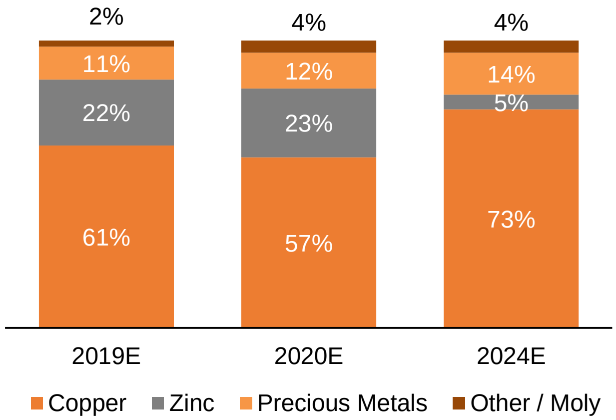



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $7.78 | 15% |
| NAV | $10.88 | 50% |
| Street Consensus | $10.00 | 35% |
| **Average** | **$10.11** | **100%** |

## Executive Decision: Watch

We ultimately decided to watch Hudbay Minerals and refrain from adding it to the CAD portfolio. We agree with the Natural Resources team's analysis of the potential for a management shakeup due to the Waterton activist investment, Hudbay's platform for growth due to new permit developments, and a shifting production mix to higher-conviction copper and precious metals. However, the valuation was not at the level of upside (+7%) to warrant an investment in the stock. We are in accordance with the Natural Resources team on the valuation and believe that Hudbay would be a great investment should there be some type of downward pressure on the share price. We have maintained Hudbay on our watchlist and will continue to monitor the stock.

REAL ESTATE

# QTS Realty Trust (NYSE: QTS) – Sep 23rd, 2018

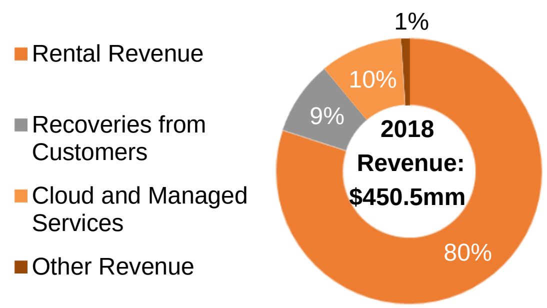
| Price at Pitch: | $45.04 | Target Price: | $54.48 (+21%) | Current Price: | $44.99 (+0%) |
|---|---|---|---|---|---|

**Business Description:** QTS Realty Trust is a data center equity REIT that owns a portfolio of 26 data centers worldwide (94.4% are wholly owned). QTS currently owns over 6 million square feet of property and has access to over 500 networks as well as 650 megawatts of available utility power. The company provides colocation and hyperscale services to over 1,100 customers.

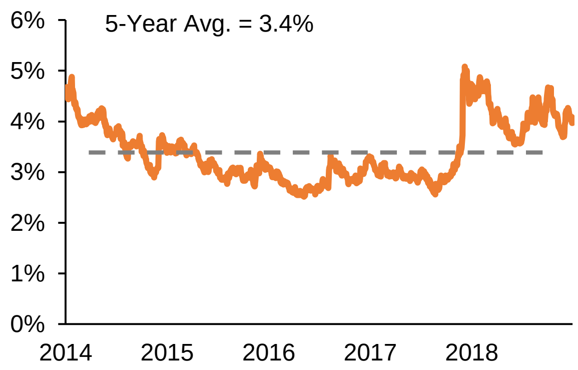
**Strategically Located Portfolio of Mega Data Centers:** QTS owns and operates data centers located throughout the US, Canada, Europe, and Asia. Not only is the property portfolio geographically diversified, QTS recently acquired numerous mega data centers. Such data centers have the capacity to support a multi-tenant environment which is more efficient than single-use or smaller data centers. The company has the ability to expand data center capacity by ~1.3mm sq. ft. of raised floor at a lower marginal development cost.

**Price Overreaction to Restructuring Plans:** On February 20th, 2018, QTS announced that they will divest their C3 business segment. This announcement triggered a 20% selloff as QTS listed lower than anticipated earnings guidance and stated an expected loss of $65-75mm in 2018 revenue. We do not believe that this selloff is justified because this divesture allows QTS to focus on their core operations. This business decision will increase profitability and predictability, while simplifying the firm's complex cost structure.

### Fig. 1: Segmented Revenue




### Fig. 2: Dividend Yield




### Fig. 3: Price Target Analysis

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $52.92 |
| Precedent Transactions | $47.08 |
| NAV | $46.86 |
| Street Consensus | $67.55 |
| **Average** | **$54.48** |

## Executive Decision: Buy

After monitoring the stock, we decided to add QTS to our USD portfolio, purchasing 250 shares on October 12, 2018 at a price of $39.42. The stock continued to fall amid investor disappointment in the company's plan to restructure, providing an attractive opportunity to enter into a position at a significant discount. While the restructuring plan will lead to short-term restructuring costs and revenue losses, we strongly believe this decision to rationalize the business and focus solely on data centers will serve the company well long-term. Additionally, while the data center space has become fiercely competitive in recent years, QTS has consistently demonstrated its ability to locate data centers in more strategic locations, making operations more efficient. We look forward to continuing to hold the stock until our $54.48 price target and maintain a stop loss of $31.58.

REAL ESTATE

## Summit REIT (TSE: SMU.UN) – Nov 25th, 2018

Summit IIREIT
Summit Industrial Income REIT

| Price at Pitch: | $9.29 | Target Price: | $8.54 (-8%) | Current Price: | $12.03 (+29%) |
|---|---|---|---|---|---|

**Business Description:** Summit Industrial Income REIT is a light industrial income REIT that seeks to optimize performance through active management. Property portfolio consists of 92 properties, with Gross Leasable Area totaling over 10 million square feet. Major tenants include Coca-Cola, Frito Lay, Home Depot, and Samsonite Canada.

**Data Centers – It's in the Details:** In December 2017, Summit II and construction firm Urbacon entered into a 50/50 joint venture partnership. The agreement gives Summit II exclusive rights to participate in Urbacon's data center projects moving forward. Through such deal, Summit will reap the benefits of ideal property locations, a lucrative existing customer base, and management expertise. Additionally, the data center industry is expected to grow at a compound annual growth rate of 10.68% in the next five years.

**Robust Business Strategy:** Summit's head office is located in Brampton and this provides a competitive advantage as the GTA is currently experiencing the lowest vacancy rates (0.8%) in the country. Low vacancy rates has led to strong NOI growth in the GTA region. Additionally, the firm has successfully completed all of the 2018 lease expiries, having renewed 399k square feet (93.3% retention rate), with an average rent increase of 9.5% (12.7% in the GTA). All 110k square feet of the vacancies in western Canada have also been successfully committed and leased.

**Fig. 1: Segmented Revenue**

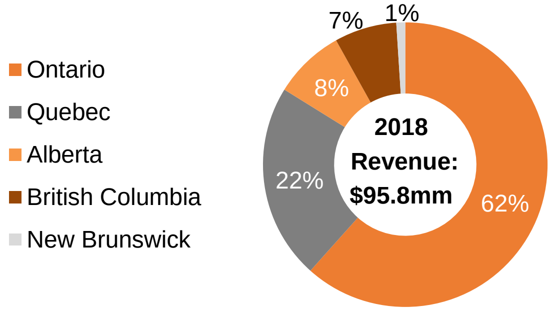



**Fig. 2: Dividend Yield**

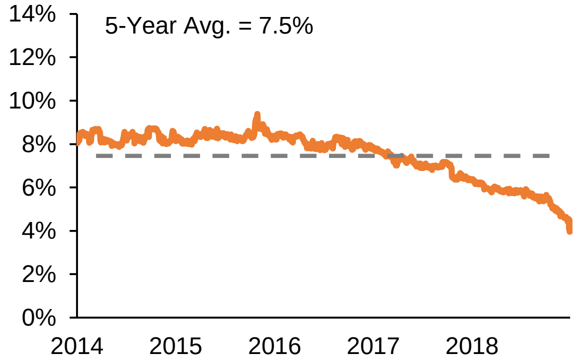



**Fig. 3: Price Target Analysis**

| Valuation Summary | |
|---|---|
| **Analysis** | **Price** |
| Comparables | $8.28 |
| NAV | $7.65 |
| Street Consensus | $9.69 |
| **Average** | **$8.54** |

## Executive Decision: Watch

We agreed with the Real Estate team's hold recommendation on SMU.UN. The company's management team is incredibly strong, having successfully demonstrated its ability to generate shareholder value in growing Summit REIT to be Canada's largest owner of industrial warehousing. Additionally, management has demonstrated significant buy-in with 7.6% ownership in SMU.UN. However, many of the growth prospects which the company is highlighting to investors are already priced in, as the stock trades at a large premium to peers. On an intrinsic basis, the stock also appears to be fairly valued, implying a slight downside to the price on the date of the pitch. Despite this premium valuation, operating metrics in the company's 'Other Canada' properties have deteriorated, leaving us confident in our hold decision.

REAL ESTATE

## MGP Growth Properties (NYSE: MGP) – Mar 3rd, 2019

| | | | | | |
|---|---|---|---|---|---|
| **Price at Pitch:** | $30.49 | **Target Price:** | $34.46 (+13%) | **Current Price:** | $32.25 (+6%) |

**Business Description:** MGM Growth Properties is a leading equity REIT with a focus on acquiring large-scale destination entertainment and leisure resorts. Current portfolio includes 27,500 hotel rooms, 2.7mm square feet of convention centres, 150 retail outlets, 300 food and beverage outlets, and 20 entertainment venues. MGP operates as a subsidiary of MGM Resorts International (NYSE: MGM).

**Growth Through M&A:** Since their IPO, over $4bn on MGP's acquisitions have been accretive. This is evident by the 40% cash rental revenue compound annual growth rate. MGP has also increased dividend payments in five out of the last 10 dividend dates. With $835mm in total liquidity as of September 30, 2018, the firm has the flexibility to continue growing via acquisition.

**High Quality Property Portfolio:** MGP has a superior coverage ratio compared to its peers. With a 5.9x rent coverage ratio compared to VICI Properties (3.1x) and Gaming & Leisure (1.9x), the firm is well-positioned for further leverage if future M&A transactions require high levels of debt. It is also important to note that net rent coverage ratio has increased by approximately 8.2% every year since 2008. Due to MGP's strong property portfolio, rent revenue has increased by a 25.6% compound annual growth rate in the past three years. In addition, MGP signed a Master Lease Agreement with MGM and this triple net leasing structure ensures rent will continue to escalate in the future.

**Fig. 1: Segmented Revenue**

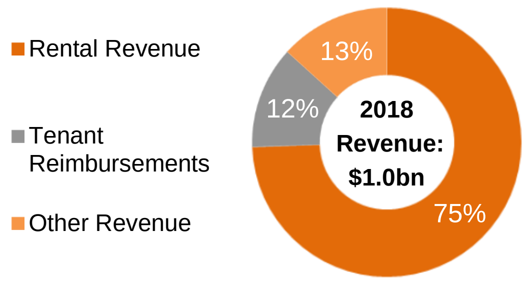



**Fig. 2: Dividend Yield**

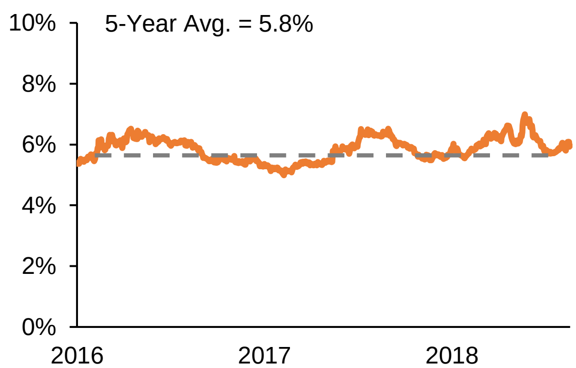



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $30.61 | 33% |
| NAV | $33.27 | 33% |
| Street Consensus | $39.50 | 33% |
| **Average** | **$34.46** | **100%** |

## Executive Decision: Watch

We decided not to add MGP to our USD portfolio. While the company has a strong tenant portfolio with excellent rent coverage ratios and generates predictable and increasing cash flows via rent escalators, we felt the valuation was unattractive. Threatened by secular headwinds including stalling foot traffic growth in Las Vegas, the company trades in line with peers and its own historical valuation. Although it can be argued that the company has superior growth opportunities to some of its publicly-traded peers, an intrinsic valuation only yields an implied upside of +8%, failing to achieve an attractive risk-reward tradeoff given the -29% downside case. Despite a strong 5.8% dividend yield, we believe the stock is a hold currently and will continue to monitor for a more attractive entry point.

REAL ESTATE

## Allied Properties REIT (TSX: AP.UN) – Apr 7th, 2019

ALLIED

| **Price at Pitch:** | $48.77 | **Target Price:** | $53.88 (+10%) | **Current Price:** | - |
|---|---|---|---|---|---|

**Business Description:** Allied Properties is an office REIT that operates in major Canadian cities. AP.UN owns a portfolio of 151 properties. Major tenants include IT, banking, government, marketing, and telecommunication firms. Allied targets historic brick-and-beam buildings which can be renovated into distinctive urban workspaces.

**Forward Moving Momentum:** In 2018 alone, Allied acquired 11 properties for a total acquisition cost of ~143mm. With a strong development pipeline and recently completed zoning approvals, AP.UN is well positioned moving forward. Furthermore, Allied currently charges rent below the market rate but will be able to increase rent prices once the current leases expire. Since inception, the overall portfolio has grown at a 29.1% CAGR and has a 96.7% occupancy rate.

**Well-Positioned to Capitalize on Shift to Cloud Services:** Allied first entered the network-dense data center space in 2009 when they acquired 151 Front Street West, the largest internet exchange point in Canada. Currently, Allied operates three network-dense urban centers in downtown Toronto and these properties represent 17.7% of the REIT's total annualized NOI for the year ended December 31, 2018. With rental rates well below the market rate, AP.UN has been able to attract companies such as Bell, Rogers, and Cologix as principal users. Allied's network spans from Tokyo to Hong Kong to Sydney.

**Fig. 1: Segmented Revenue**

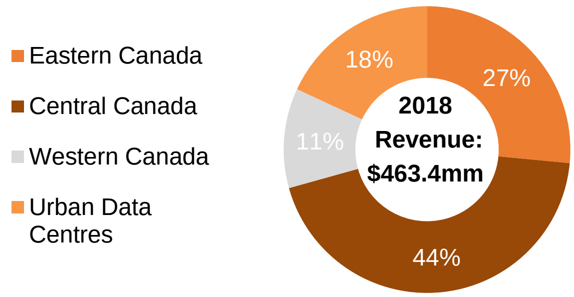



**Fig. 2: Dividend Yield**

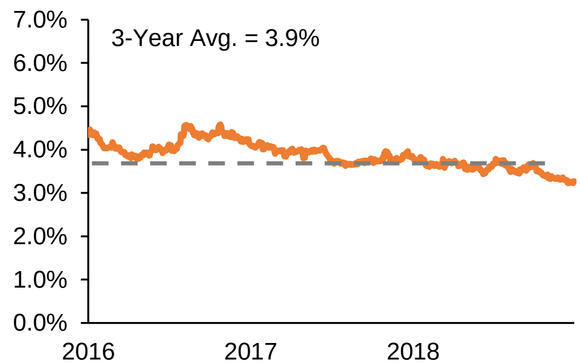



**Fig. 3: Price Target Analysis**

| Valuation Summary | | |
|---|---|---|
| **Analysis** | **Price** | **Weight** |
| Comparables | $26.18 | 0% |
| NAV | $55.00 | 50% |
| Street Consensus | $52.75 | 50% |
| **Average** | **$53.88** | **100%** |

## Executive Decision: Watch

We agree with Real Estate's hold recommendation on AP.UN, electing not to add the stock to our CAD portfolio. Without question, the company has consistently demonstrated its ability to grow its asset base and deliver returns to shareholders, driven by an incredibly strong management team with niche expertise in renovating and improving properties. Additionally, we agree that the company has positioned itself well to take advantage of secular growth trends in the cloud services space. However, as a value-focused investment club, we believe the stock is exceptionally expensive at 26.0x forward AFFO. While its significant premium to peers may be justified to some extent, this premium has only increased in size in recent years and leads us to believe that the stock is being correctly priced by the market.



## Care.com, Inc. (NYSE: CRCM) – September 16th, 2018

| **Price at Pitch:** | $20.20 | **Target Price:** | $23.20 (+15%) | **Current Price:** | $19.76 (-2%) |
|---|---|---|---|---|---|

Business Description: Care.com is the worlds largest online marketplace for matching and managing caregivers with families. Their services cover a number of care needs including: child car, senior care, pet care, household cleaning/help. The Payment model is split between subscribers and free users

Strong Position in Fragmented Industry: As the only scaled up pure play online care service Care.com has the opportunity to capture ample market share in a highly fragmented industry. Care.com estimates that they have about 4.8% of the entire market; however, the next largest direct competitor is ~10% the size of Care.com. Thus, not a significant threat. Furthermore, Care.com provides a superior user experience relative to their indirect competitors such as agencies, news adds and online classifieds. They do this through target screening, powerful search volumes, ranking systems and mobile solutions.

Tapping into an Untapped Market: Being a market leader in the industry positions Care.com favorably. With shifting demographics towards a higher threshold of how much money an average family spends on family care, Care.com is well positioned. Additionally, with a new business segment partnering Care.com with businesses to offer services to corporate clients, sticky revenue streams will be realized. Finally, with average revenue per user increasing and customer acquisition cost decreasing, a strong business model is demonstrated.

**Fig. 1: Financial Metrics**

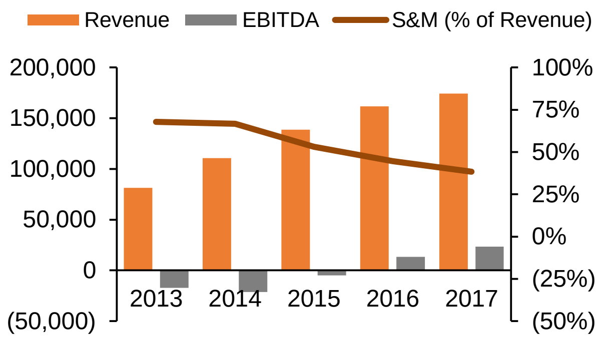



**Fig. 2: Market Size**

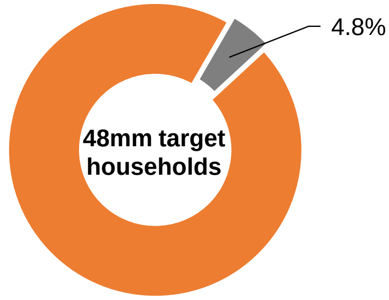
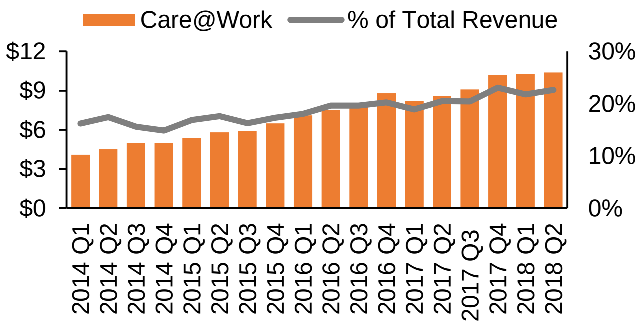



**Fig. 3: Care@work Quarterly Growth**




## Executive Decision: Buy

We decided to add Care.com to the USD portfolio. At the time of the pitch, we felt that there was not enough upside in the stock to justify purchasing. After the stock fell nearly 18%, we decided to purchase as we felt that the sell-off was unjustified and provided an attractive entry price. We also liked the recently announced partnerships with corporate clients and the strong macroeconomic tailwinds related to the increasing level of dual working parents and companies providing their employees with childcare benefits. Although there was some difficulty in establishing a concrete valuation due to uncertainty in cash flows, we felt that the upside present in the stock outweighed the risks associated with it. We purchased 300 shares at an average price of $17.81 and sold our position at an average price of $23.74 once the stock reached our target price.

TECHNOLOGY, MEDIA & TELECOM

## Zayo Group Holdings, Inc. (NYSE: ZAYO) – October 21st, 2018

**Price at Pitch:** $31.96 **Target Price:** 37.29 (+17%) **Current Price:** $28.42 (-11%)

Business Description: Zayo Group Holdings provides bandwidth infrastructure solutions for the communications industry in the United States, Canada and Europe. Their mission is to amass fiber and data center assets and unlock value by providing strong communications infrastructure

Expansion Opportunities: Zayo has numerous opportunities to expand based off geography and new industry trends. In terms of geography, Zayo plans to expand its fiber networks into European cities including London, Paris, Dublin and Amsterdam. These new locations will be linked with their existing network spanning nine data centers across Europe. 5G is picking up momentum to replace 4G globally and demand for the infrastructure is growing. Zayo offers unique MIMO infrastructure to meet this demand.

Superior Business Practices Relative to Peers: Zayo has three core competencies that allow for them to effectively outperform peers: More valuable fiber cables, greater average contract length, and an ability to win customers. When comparing the fiber cables from Zayo on a route miles to fibers miles bases, it becomes evident that Zayo’s cables are generally 84% denser than competitors. Secondly, after reviewing close competitors we have concluded that Zayo on average has greater contract length than competitors. Finally, over 61% of the sales team has over 3 years of experience. reaching the most effective time in their careers, they are poised for an increase in sales.

**Fig. 1: Segmented Revenue**

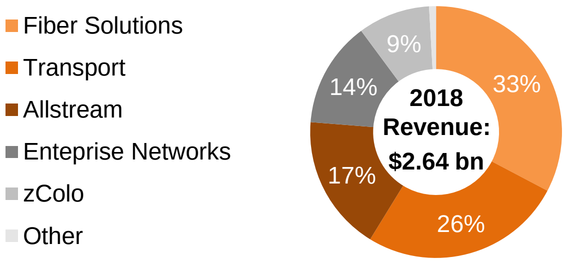



**Fig. 2: 5G Infrastructure Market ($bn)**

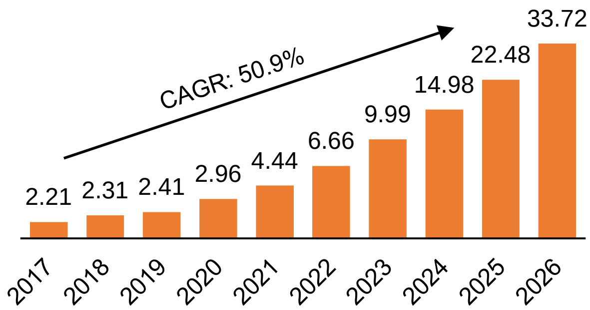
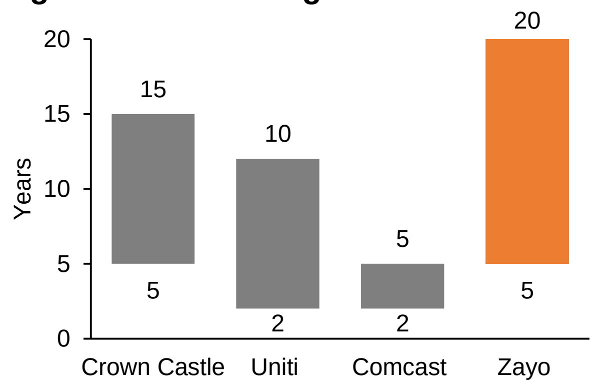



**Fig. 3: Contract Lengths**




## Executive Decision: Watch

Ultimately, we decided not to add Zayo to our USD portfolio. Although the company has a very strong and defensible margin profile and is benefitting from strong industry tailwinds in the form of the adoption of 5G technology, there were many aspects of the company that did not align with our investment philosophy. Specifically, we felt that there were significant regulatory risks surrounding the company’s split and REIT conversion, very little consensus credibility in the management team, and its significant capital expenditure requirements inhibit Zayo’s ability to convert EBITDA into cash flows. Additionally, Zayo is difficult to value considering its frequent acquisitions and the significant capital investments required to build out the 5G network. We will continue to monitor the stock for any significant changes.

## II-VI Inc. (NASDAQ: IIVI) – February 27th, 2019

**Price at Pitch:** $42.22 **Target Price:** $54.66 (+29%) **Current Price:** $37.24 (-12%)

**Business Description**: II-VI (pronounced "Two Six") develops, manufactures, and markets engineered materials and optoelectronics. Optoelectronics are electronic devices that use light. Originally from Pennsylvania, II-VI has grown to be an internationally recognised firm. They operate in three main segments: laser solutions ($406mm), Photonics ($487mm), and performance products ($266mm).

**Positive Shift Away From International Markets**: U.S. markets are far superior boasting revenue growth upwards of 60% while international revenue growth is stagnant. As a result of the poor international performance, the stock price is being punished. This is unjustified as greater amounts of future earnings are seen to be coming from the U.S. which have stronger growth prospects. Furthermore, recent acquisitions have been domestic showing an increased concentration of operations in the U.S.

**Mispricing of II-VI**: Two major factors have caused mispricing in II-VI's stock price:

1. Recent negative China sentiment and industry have caused a spike in short interest that is unjustified due to II-VI's exposure to the two markets

2. II-VI's merger with Finisar has not been modelled out by the street and merger model analysis implies significant upside. By doing further analysis compared to the street, the intrinsic value of the merged company is much greater than the current value of the company.

**Fig. 1: Strong U.S. Market Growth**

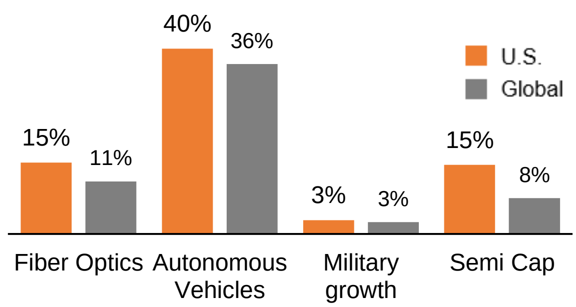



**Fig. 2: Lower Risk Exposure**

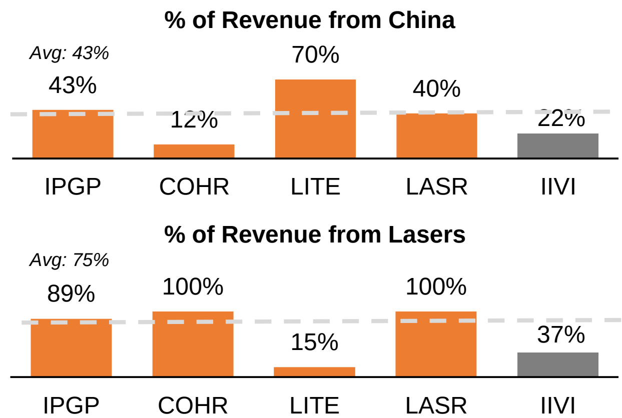



**Fig. 3: Pro-Forma Merger Analysis**

| Bank | Prorated Model? | # of Mentions of Finisar |
|---|---|---|
| Morgan Stanley | ✗ | 12 |
| COWEN GROUP | ✗ | 0 |
| Deutsche Bank | ✗ | 1 |
| Others | ✗ | N/A |

## Executive Decision: Buy

We have decided to add II-IV to the USD portfolio. At the time of the pitch, we agreed with the TMT team's assessment that there was an opportunity to take advantage of a market mispricing due to limited equity coverage on the pending Finisar merger. The valuation model performed by our team accounted for the projected impacts of the merger and showed significant upside. Although there has been a negative impact on China-related operations due to the U.S.-China trade war, II-IV's shift toward the U.S. is more prevalent. We felt that the current share price was an attractive entry price given the indiscriminate increase in short activity on the laser industry, which pushed valuations lower and caused II-IV to dip well below their 3-year average EBITDA multiple of 12.5x. We purchased 149 shares at an average price of $36.91 and are closely following the stock.

TECHNOLOGY, MEDIA & TELECOM

## Zix Corporation (NASDAQ: ZIXI) – March 27th, 2019

**Price at Pitch:** $6.66 **Target Price:** $10.04 (+51%) **Current Price:** $6.88 (+3%)

Business Description: Zix Corp is a leader in email data protection, offering industry leading email encryption, threat protection, archiving, and BYOD mobile security. They target customers in the health care, financial services, insurance, and government sectors

Access to Strong End Markets and Attractive Time to Enter: Overall, the cybersecurity space is an extremely attract industry as value investors because of the stable cash flows, sticky revenue and CapEx light characteristic traits of the business. Zix is in a strong spot with recent acquisitions to expand end markets that are recession proof. As a result, overall cybersecurity multiples have been expanding tremendously within the past 3 months. In contrast, Zix's Forward EV/Revenue is 3 standard deviations under their 2-year average, which improves valuation attractiveness due to mispricing from their recent acquisition of AppRiver.

Superior Operating Metrics Lead to Long-term Profitability: Within the cybersecurity space, Zix is an attractive company on operating metrics. Highlights include a 90%+ retention rate, exceptionally high ROIC, and that Zix is EBITDA positive. Due to the function of recurring revenue in this space, EBITDA margins begin expanding and providing strong cash flows as the company matures and allows Zix to generate strong cash flows for the long-term.

**Fig. 1: Segmented Revenue**

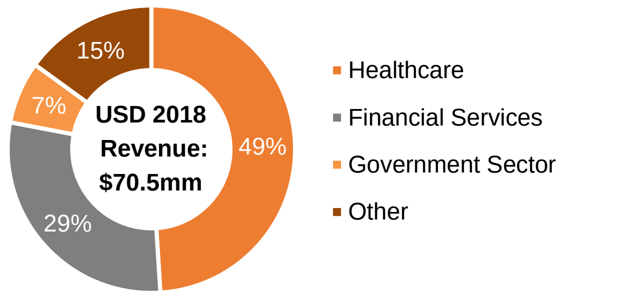



**Fig. 2: Access to New End Markets**

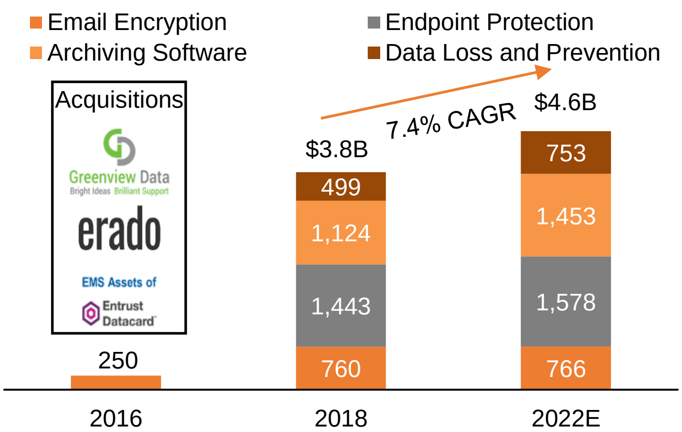
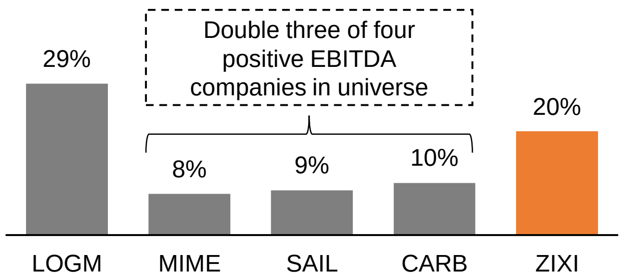



**Fig. 3: Strong EBITDA Margins**




## Executive Decision: Watch

We decided not to add Zix Corporation to our USD portfolio. Despite strong operating metrics, high retention rates, and a very strong ROIC, we felt that Zix does not significantly differentiate itself from other comparable companies. At the time of the pitch, the company was trading at an EV/EBITDA three standard deviations below its 2-year average, but this figure includes the earnings figure of their recently closed acquisition while excluding the incremental EV from the target company. Additionally, we don't have very strong conviction in the technical expertise of the management team. Despite a high implied return on the stock of over 50%, we feel that the industry consolidation and heavy competition present a risk too significant invest in the company. We will continue to monitor Zix for any major changes to this analysis.