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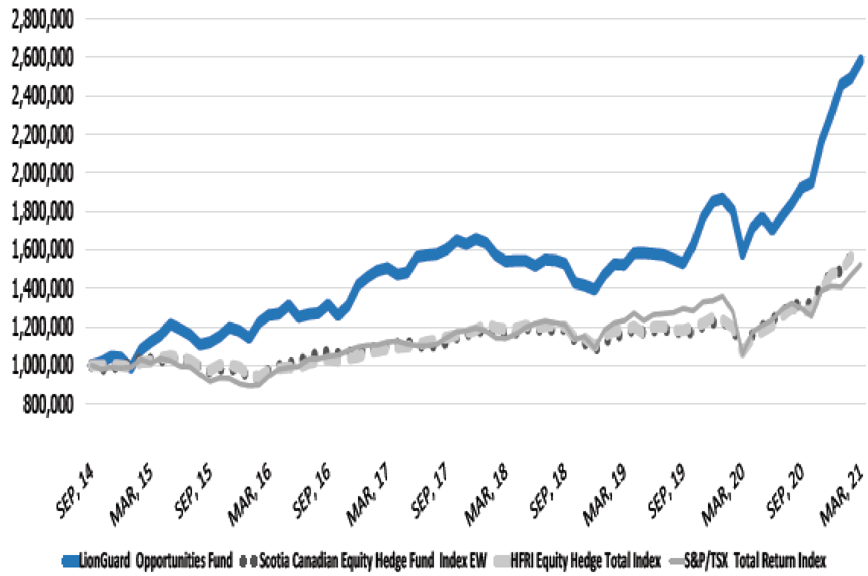
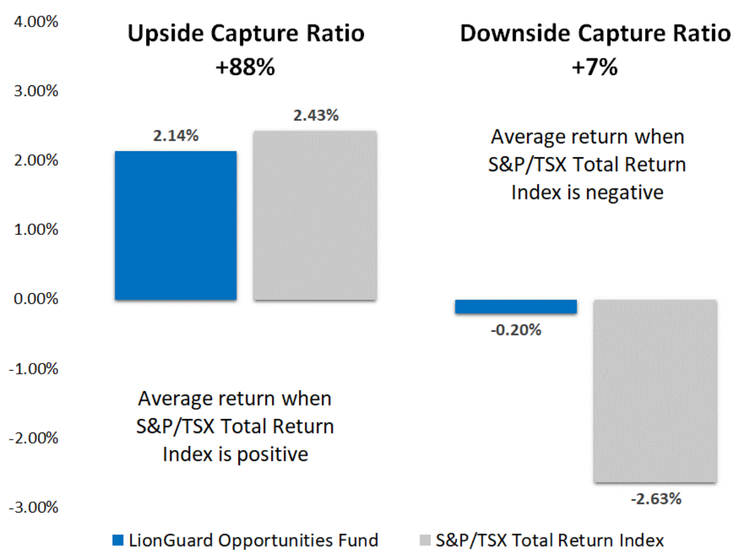
LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – MARCH 2021

Dear Investors,

During the quarter ended March 31, 2021, LionGuard Opportunities Fund ("Opportunities Fund") had a net return (after all fees and expenses) of 12.27%. Since the Opportunities Fund's inception, its annualized net return amounts to 15.73%.



As compared to the broad market index (S&P/TSX Total Return Index), the Opportunities Fund's upside capture ratio amounted to 88% since inception while its downside capture ratio was an outstanding 7%.



In addition to the industry-leading downside capture ratio, we outperformed the S&P/TSX Total Return Index by on average 9.02% per annum while maintaining an average net long exposure of 60% and holding an average of 10% of the Fund's assets in cash.

Also, the annualized net return of the Fund divided by its largest drawdown since inception amounts to 0.99x. This ratio is frequently used by sophisticated allocators to gauge funds' return profiles relative to the amount of risk they take.

Q1-2021 Contributors:

During the quarter ended March 31, 2021, some of our largest contributors were: **Sangoma Technologies (STC CN), Donnelley Financial (DFIN US), Photon Control (PHO CN) and Franklin Covey (FC US)**. On the opposite side, our detractors included a mix of short positions. Please see the below comments for details.

Sangoma Technologies (STC CN) – we have written extensively on STC. Please refer to our earlier reports for a more detailed discussion.

We are happy to highlight that, in January, STC announced the acquisition of Star2Star, its largest and most important acquisition to date. The transaction finalizes STC's strategic pivot to becoming a one-stop cloud communications solution provider, and more importantly, completes the transformation from hardware to SaaS/Cloud Services with over 70% of revenue coming from the latter. We are excited about the prospects for the combined entity and believe this highly strategic acquisition creates the necessary scale for Sangoma to compete effectively and to gain market share at an even faster pace.

With the acquisition of Star2star and increasing interest from U.S. investors, we look forward to the company listing its shares on a U.S. Exchange. Based on the last management comments, we believe that Sangoma will start trading in the U.S. (likely on NASDAQ) in Q3/2021. We expect the U.S. listing to serve as a catalyst to lower the valuation gap between the company and its U.S. peers.

Note that B.Riley recently initiated coverage of the company with a target price of $5.50/share and we certainly expect more U.S. investment banks to do the same. We also expect STC to continue its highly accretive M&A (and organic!) growth trajectory, which should bode well for the stock price for years to come.

Donnelley Financial (DFIN US) is a leading global risk and compliance solutions business with over 50% recurring revenue. It provides regulatory filing and deal solutions via top-notch software, technology-enabled, and print solutions. In fact, their Venue product is the 3rd largest Virtual Data Room software solution in the industry and their SEC compliance solutions (ActiveDisclosure and FundSuiteArc) are some of the leading offerings in the space with well over 90% and 95% retention rates respectively.

When we initially came across the company, in the summer of 2020, the business was cheap by all standards. At that time, its Sum of the Parts valuation implied at least 70% upside. Fortunately for us, mispricing was a function of (a) poor screening on unattractive headline numbers and (b) a deteriorating print business masking the true earnings power of software and tech-enabled solutions. These factors brought forth enough complexity to push others to allocate time and resources to other ideas, thus placing DFIN's valuation in the penalty box for a prolonged enough time for us to complete our research and become comfortable with establishing a position.

Mistaken for a print business, DFIN is a strong cash flow generating company with solid prospects for years to come. The company is in the midst of a cost-cutting and operating model transformation that will take the low-margin print business from ~40% of revenue in 2016 to less than ~20% as we move past the newly implemented SEC Rules 30e-3 & 498a. These rules are expected to have a $130 - $140M revenue impact in 2021 with just under $5 - $10M EBITDA impact, reflecting the low margin nature of that business. As we move past these transitory "blessing in disguise" headwinds and execute on a well-planned cost-cutting plan, we end up with a highly sticky software business and a high margin transactional technology-enabled business driven by robust capital markets activity.

Our understanding is that ~40% and ~30% of DFIN's Transactional business, respectively, is driven by IPO and M&A activity. Cognizant of a hot market in both, and an unprecedented (yet in our opinion temporary) environment for SPACs, we were extremely confident in DFIN's ability to capitalize on these trends. After all, speaking with different service providers, we highlight that the company has one of the leading market shares in the space with its solutions used in at least 40% - 50% of all IPO/M&A deals. Equally important, their Virtual Data Room offering, Venue, is ranked 3rd in the industry. Confident in management's ability to execute and reassured by a solid cost-cutting plan, deleveraging process, and an active buyback program, we decided to take a position in the company.

As expected, the company's Q4 earnings largely outperformed expectations with Revenue and EBITDA of $210.3M and $34.9M vs consensus at $180M and $27.4M respectively. These were underpinned by a 10.5% increase in revenues driven by robust IPOs and software sales, prompting the company to issue strong Q1 guidance and 2021 commentary while expanding its buyback program to $50M following the completion of their earlier $25M program.

The company delivered as per our expectations and we continue to see significant leeway for growth for years to come or a potential corporate privatization of the business as excellent execution, shedding of low-margin print business, debt paydown, buybacks, cheap valuation and improving profitability come to light.

Franklin Covey (FC US) – is another top contributor for the quarter. We came across this leading provider of corporate training and performance improvement in the summer of 2020. At the time, FC was unwarrantedly yielding well over 9.0% in FCF for a business that (a) *is in the final innings of a major transformation to recurring high-margin revenue*, (b) *can grow high single-digit to teens organically with over 50% incremental margin contribution*, (c) *is expected to double EBITDA in the next two years organically*, and (d) *has a leading, timeless content position in a ~$100B market*. We initiated a position in Q4/2020 and have been averaging up since then, buoyed by improving fundamentals and a cheap valuation.

Franklin Covey is a producer and owner of valuable and timeless content (intellectual property) that touches on key corporate and personal self-improvement issues that are here to stay. These issues range from personal and interpersonal skills to leadership and strategic development. Their content, which is more often consumed on a subscription basis (All-Access Pass), is highly regarded, and is consumed by thousands of clients including a meaningful portion of Fortune 100 and Fortune 500 companies.

Since the transition to a subscription business model is key to our thesis, we will refrain from discussing different P&L segments, and instead focus on their All-Access Pass (AAP) offering and how their go-to-market approach has evolved since 2017. Prior to releasing All-Access Pass, FC had primarily sold its solutions on a "per case / per need" basis: a Franklin Covey salesperson would meet with a company representative/HR to determine which course/module would be ideal to meet that company's needs at that time and complete a sale. The issue with that go-to-market strategy is that it is not a "one size fits all" product – some employees may benefit from other courses that were not necessarily discussed.

Cognizant of the broader opportunity in the market, FC released its All-Access Pass, which essentially gives clients access to most of its content – this is a stellar way to monetize hundreds of millions of dollars in timeless content at an extremely high incremental margin (~50%). The transition has been a success thus far with AAP & related service accounting for 83% of North America sales (vs 2% in 2016), ~70% of UK/Australia sales and low 20s% of China/Japan sales as these countries continue to ramp up their AAP sales efforts. More importantly, the average AAP value continues to increase growing from ~$31K just a year ago to ~$38K, with 90% retention, 44% service attachment rate (vs 17% a year ago), and a blended gross margin of 85% vs 70% on the legacy model. Effectively, the value of the AAP and related services combined is well over $55K today.

More importantly, the success of the AAP model is further highlighted by its effectiveness in capturing a larger percentage of the client's share of wallet at a higher margin: in the legacy model, a client which spent $10K in their first year spent an additional $10K over the next two years for a total three year spend of $20K at ~70% gross margin. A typical AAP client today would spend $55K on their initial purchase and over $149K over 3 years at greater than 85% gross margin! With management targeting 90% of all revenues in memberships and related sales within the next 3-4 years, it does not take much to see how it can achieve well over $40M of EBITDA (vs $20M guidance F21) in the next 2 years given the economics attached to AAP.

Lastly, we take a moment to highlight that the company reported strong Q2/2021 results underpinned yet again by double-digit growth in AAP which was partially offset by lower onsite training and school access days which impacted their Education division (~20% of revenue). We note that these are primarily delays and that this revenue stream is under contractual obligation and will be most likely recognized in the back half of the year. Despite a strong beat, management opted to maintain its guidance and not increase it out of (a) typical FC conservatism and (b) more clarity needed on the Education segment which we should get in Q3.

At ~7.0% FCF yield and precedents selling for >7.0x sales (vs FC implied AAP valuation of <3.0x), Franklin Covey remains a highly attractive takeout candidate and one of our high-conviction positions.

Photon Control (PHO CN) – is an undiscovered supplier of fiber optic sensors to large semiconductor equipment OEMs. Amid accelerating demand in the space, with semiconductor stocks at all-time highs, Photon's valuation has not caught up to said multiple expansion, trading at 8.8x EBITDA vs peers at 15.3x.

We believe the gap is bound to narrow over time as people pay more attention to this under-the-radar company.

Who is Photon? Primarily a supplier of fiber optic sensors to large semiconductor OEMs (LRCX, AMT, Tokyo Electron) in a $70B industry growing at a mid-to-high single-digit rate. These fiber optic sensors are used to improve production yield and are critical in what is a highly complex process. The advantage of PHO's fiber optic sensor is its immunity to radio frequency interference and thus its ability to deliver a higher degree of accuracy. The company's focus on Etching and Deposition (41% of the total Wafer Fab Equipment (WFE) market) has allowed it to grow at a faster pace than the industry.

Buoyed by strong fundamentals and a valuation lag vs peers, we believe now is the right time to initiate a position in the name. While the industry rallies to new highs on the back of an anticipated strong industry tailwind, the same level of optimism has yet to be reflected in PHO's share price. With $48M net cash on the balance sheet (17% of market cap), around 8% free cash flow yield, a price of 8.8x EBITDA vs peers at 15.3x, and an EBITDA margin of 37%, PHO presents a compelling risk and reward opportunity, solidified by:

- Strong demand for chip manufacturing equipment – WFE equipment spending is expected to grow to $100B by 2023 driven by the wave of major capex announcements by industry giants such as TSMC, Samsung, and Intel. We have all seen news of chip shortages all over the media recently which should fuel demand for chip manufacturing equipment for years to come.

- Expanding TAM – The revenue opportunity of Deposition is ~50% of Etching. PHO's revenue from Deposition is nearly negligible today, and after years of R&D, a move to next generation of equipment (increasing number of sensors/equipment), and expansion into adjacent markets, the company finally anticipates a significant revenue ramp in H2/21.

- Market share gains – a testament to the company's product offering. To size things up, of the ~$26M YTD Y/Y revenue growth, almost $5M was due to market share gains.

- Potential takeout – PHO presents a compelling target for a strategic buyer given industry dynamics and consolidation (Nvidia & ARM, AMD & Xilinx, etc.), very cheap valuation, strong free cash flow generation, net cash position, and growing end-markets.

- Favorable industry dynamics – IoT, 5G adoption, cloud & data centers, AI, and automotive will continue to drive chip demand for years to come. Moreover, the recent announcement to make chip manufacturing a key initiative by the Chinese government ensures equipment demand will stay elevated for years to come.

Corporate Updates & Other Funds:

Our team remains focused on identifying numerous mispricing opportunities present among North American small- and medium-capitalization equities. The current market environment bodes well for fundamental stock picking despite higher overall market levels. Rather than making a call on the direction of the markets, we much prefer managing the capital in a prudent manner by investing in unique situations with highly attractive upside-to-downside profiles.

LionGuard has recently been profiled by Bloomberg as one of the best-performing and fastest-growing fund management companies in Canada. In addition to industry-leading long/short, market neutral and long-only Canadian small cap solutions, in January we also launched a long-only U.S. small cap equities product. This initiative now allows investors to access our long-standing expertise capitalizing on opportunities in the world's largest small-cap market through a pure-play long-only solution.

May you have any questions, please contact us at any time.

Yours sincerely,

Andrey Omelchak, CFA
President, CEO & Chief Investment Officer
(on behalf of LionGuard Capital team)